



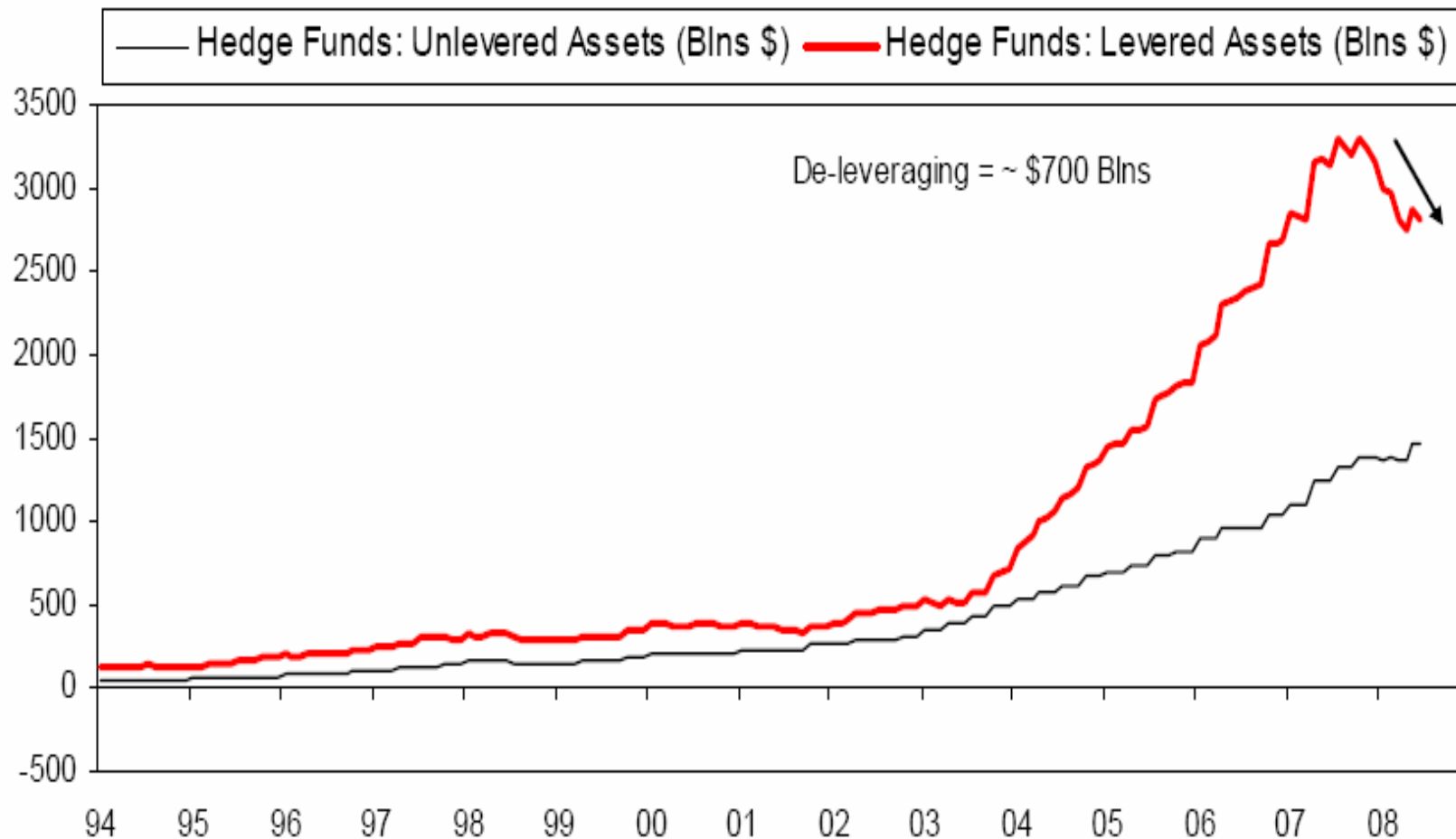
## **CalPERS – Year End Performance Review**

**Michael C. Schlachter, CFA**  
Managing Director & Principal

**Andrew Junkin, CFA, CIMA, CAIA**  
Managing Director & Principal

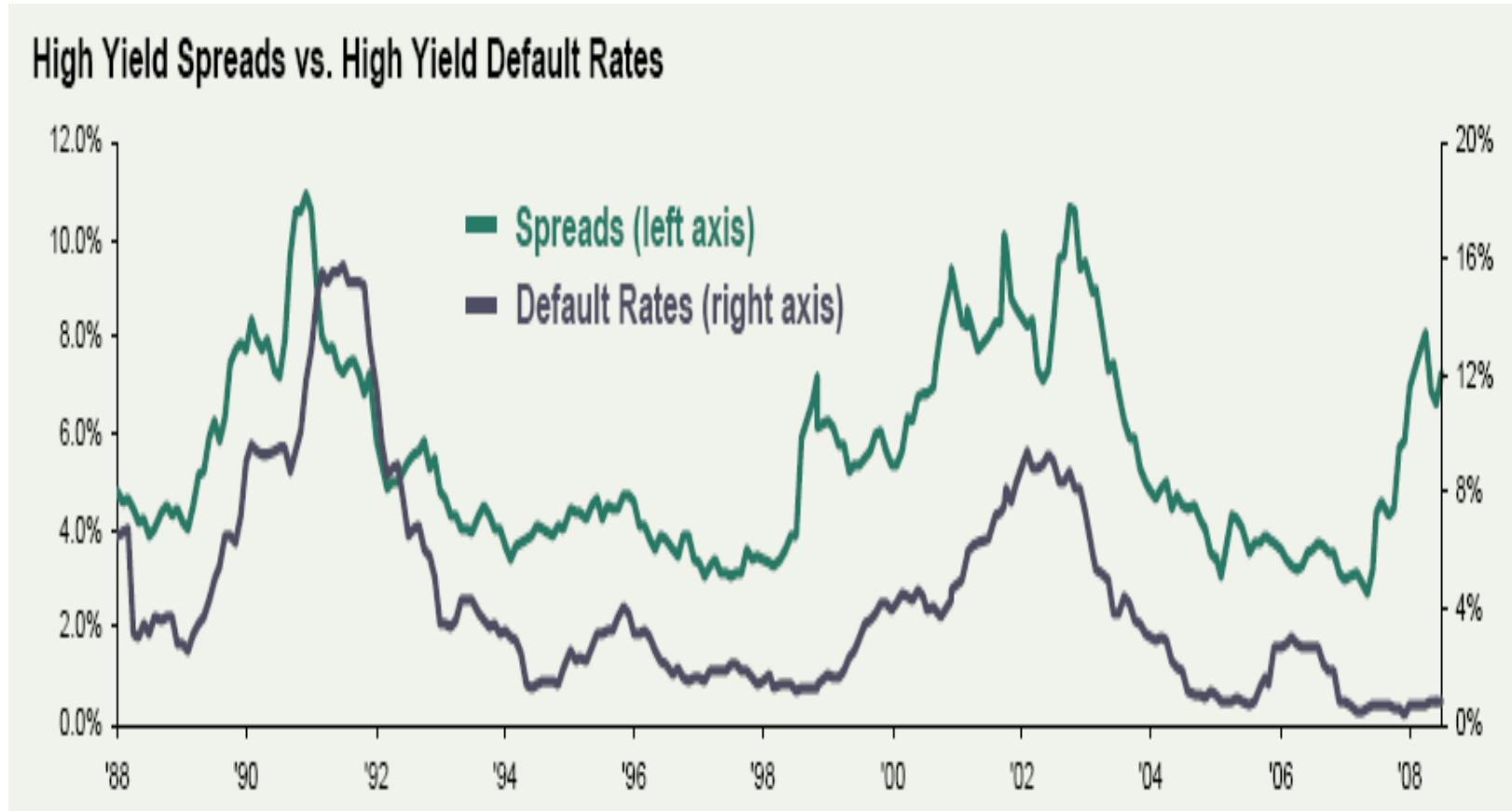
**September 2008 (Revised 9/18/08)**

# Deleveraging Has Caused Sell Off of Quality Assets



Source: Bridgewater

## Bond Market – Spreads Rising in Anticipation of Defaults

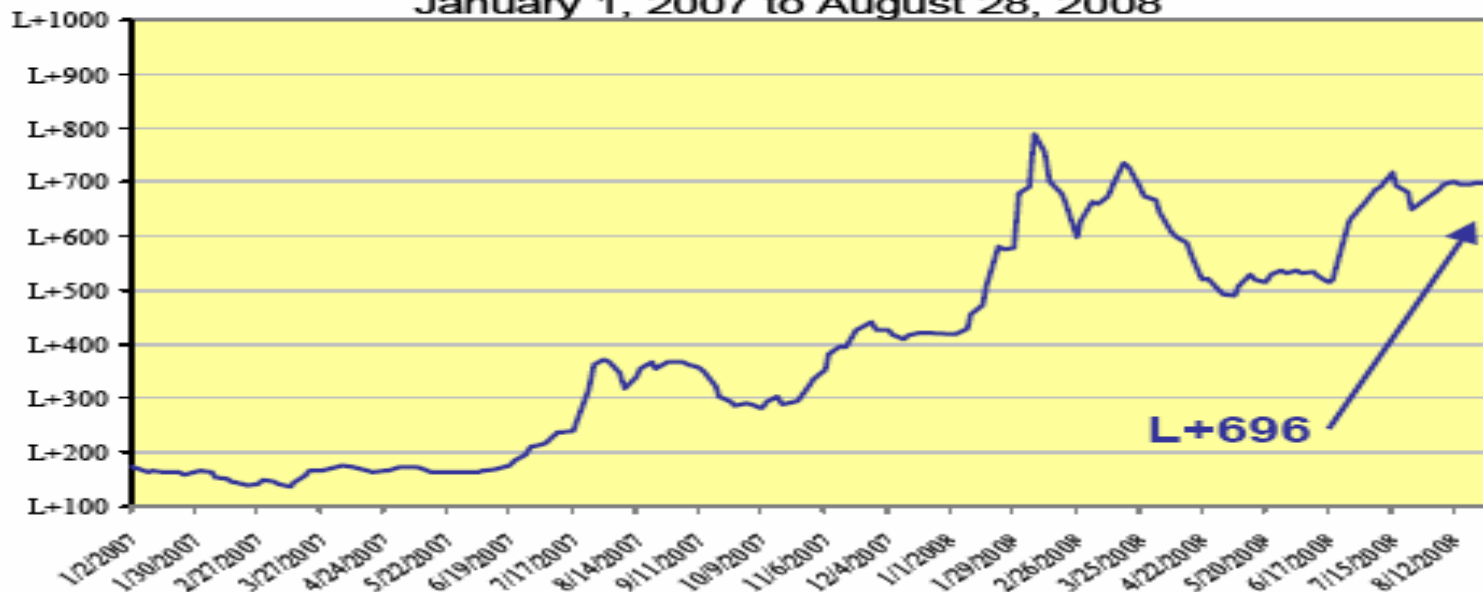


# Bank Loans = Credit Crunch + Technical Factors

**Average Bid and Ask - S&P/LCD Flow Name Composite**  
January 1, 2007 to August 28, 2008

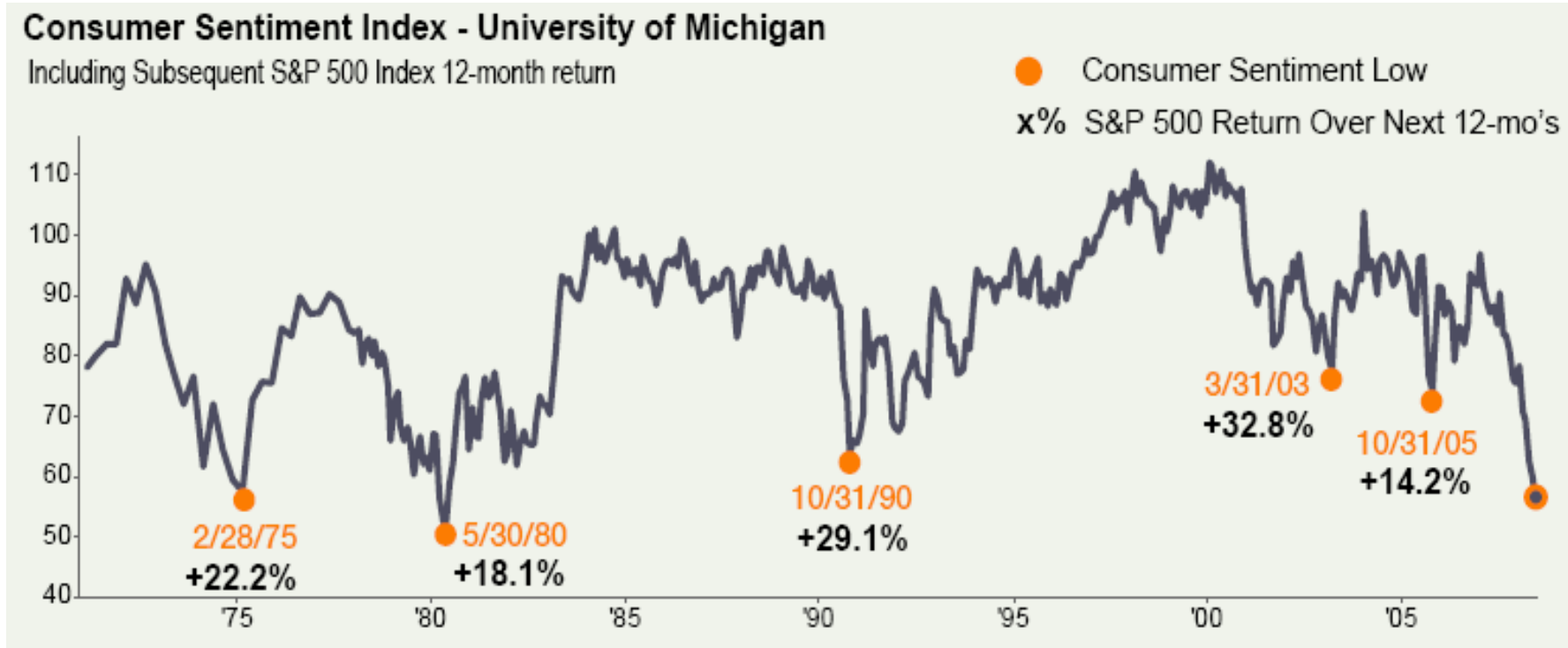


**Average Three Year Call Secondary Spread**  
**S&P/LCD Flow Name Composite 1, 2, 3**  
January 1, 2007 to August 28, 2008



Source: ING

# Consumer Sentiment – 25 year low



Source: JP Morgan, University of Michigan

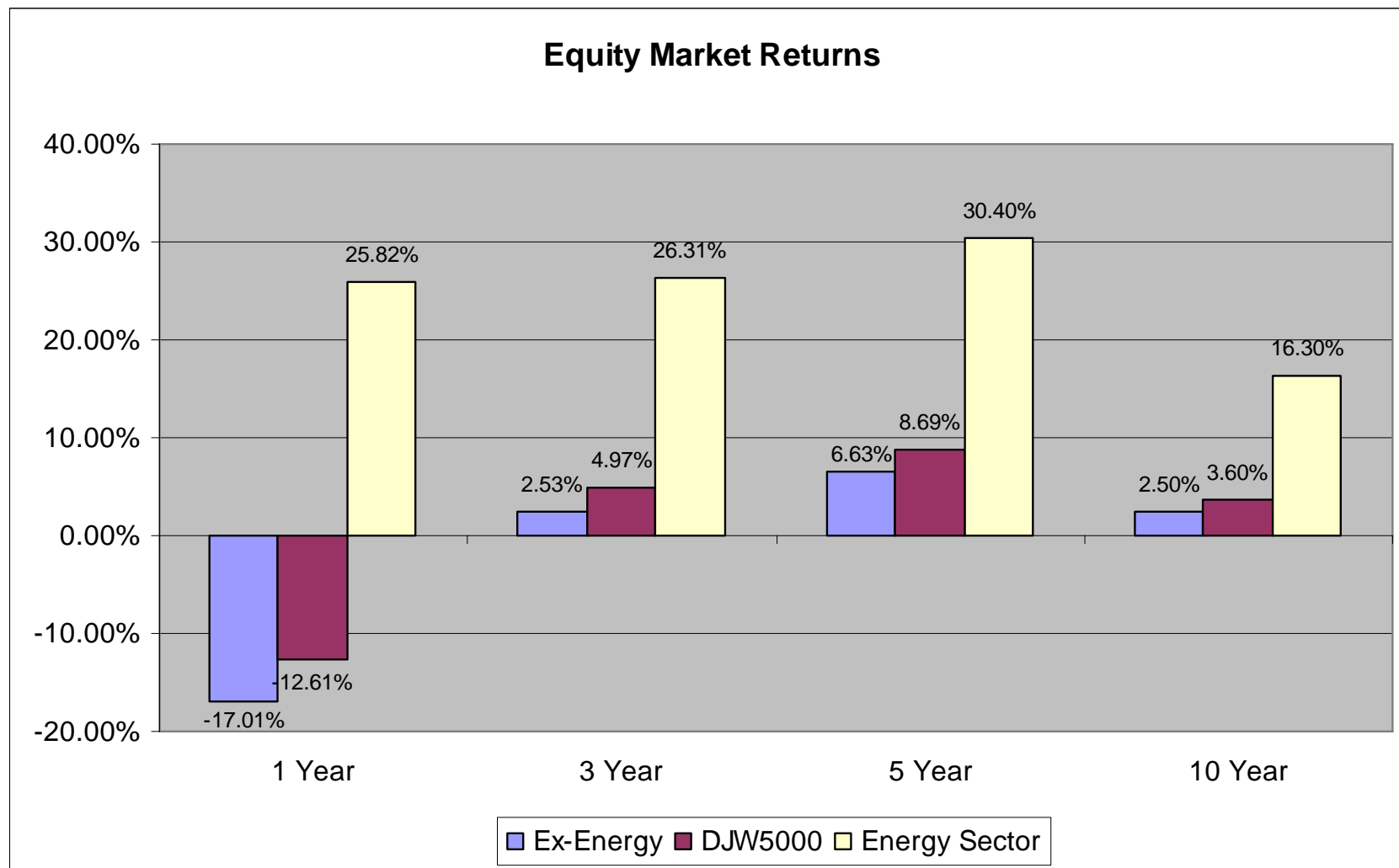
# Stock Market Recoveries

## Bear Market Cycles vs. Subsequent Bull Runs

Market Peak	Market Low	Bear Return	Length of Decline	Bull Run	Length of Bull Run
5/29/46	5/19/47	-28.6%	12	257.6%	124
7/15/57	10/22/57	-20.7%	3	86.4%	50
12/12/61	6/26/62	-28.0%	7	79.8%	44
2/9/66	10/7/66	-22.2%	8	48.0%	26
11/29/68	5/26/70	-36.1%	18	74.2%	32
1/5/73	10/3/74	-48.4%	21	125.6%	75
11/28/80	8/12/82	-27.1%	21	228.8%	61
8/25/87	12/4/87	-33.5%	3	582.1%	150
3/24/00	10/9/02	-49.1%	31	+83.26% through 6/30/08	
<b>Average:</b>		-32.6%	14 mo's	185.3%	70 mo's

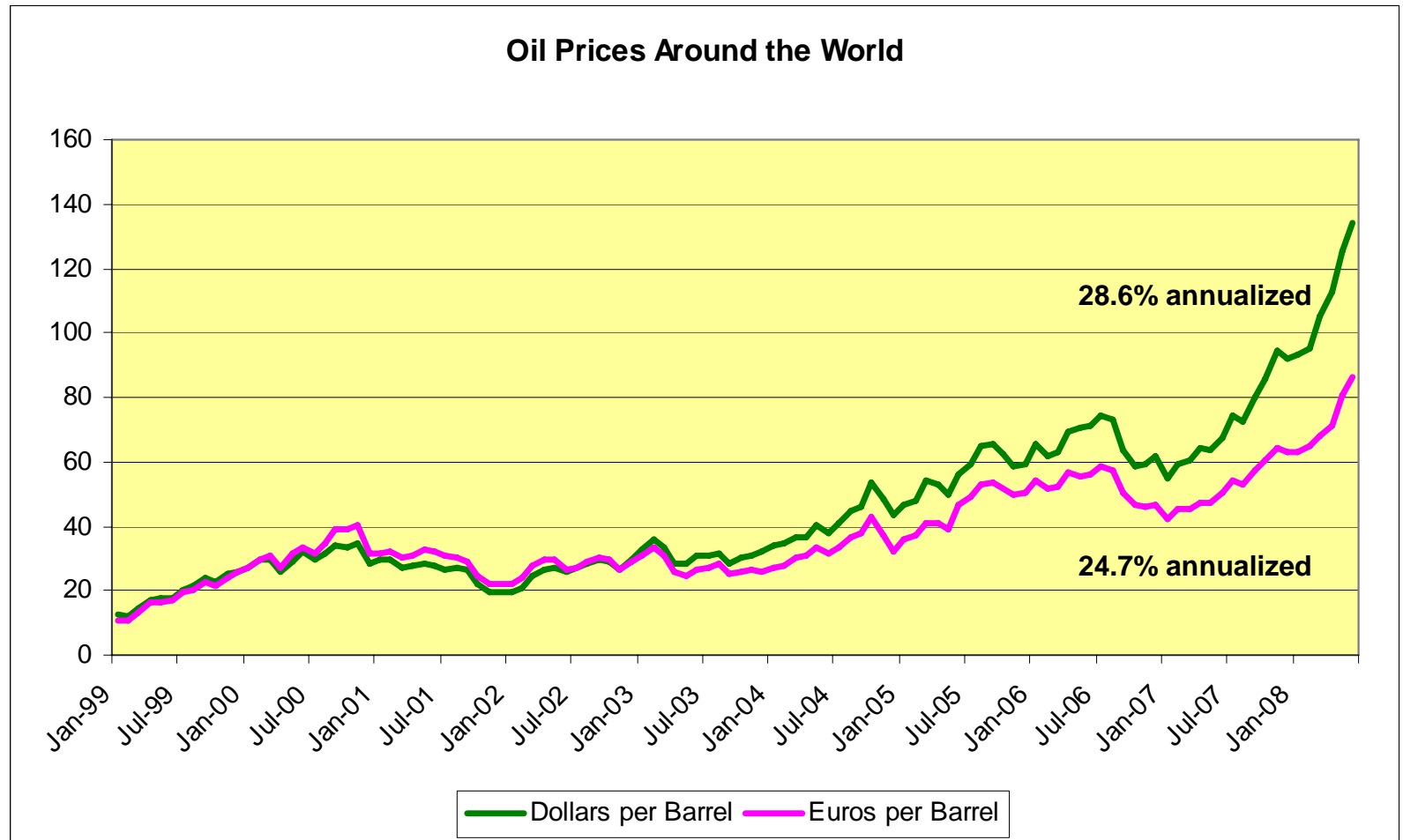
Source: JP Morgan

# Stock Market Returns – with and without Energy



Source: Wilshire Atlas

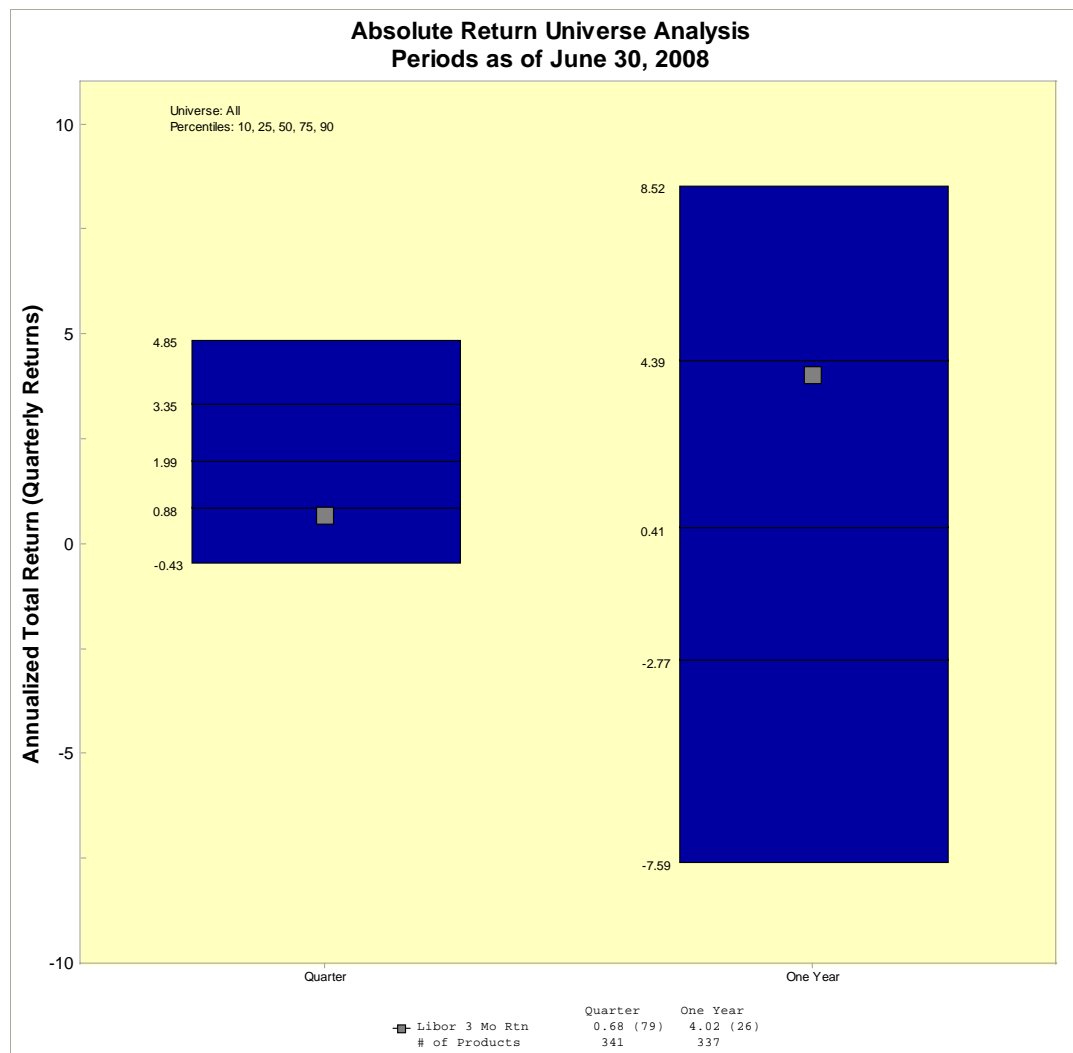
# Oil Prices – Currency Effects



Source: Energy Information Administration, Federal Reserve



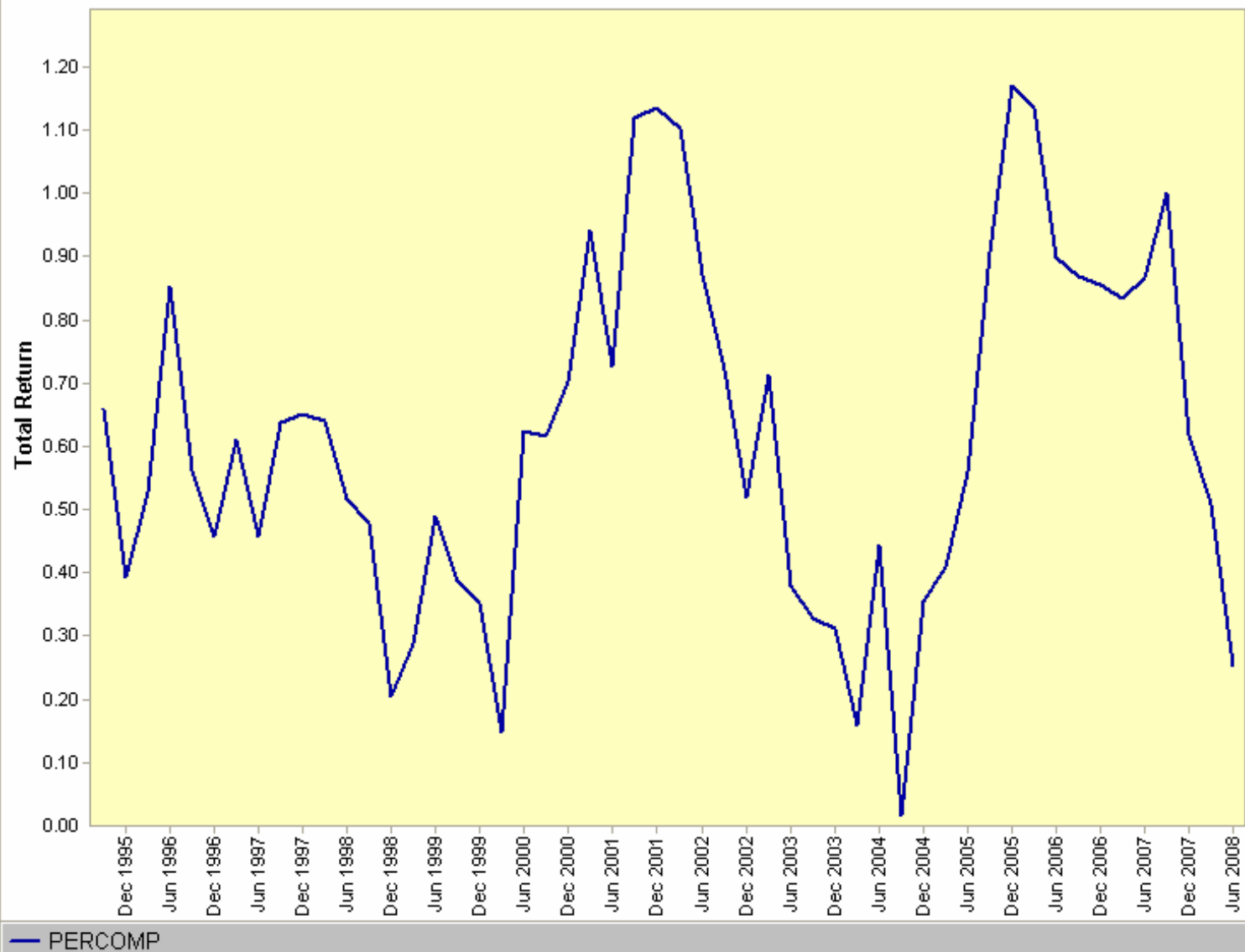
# Absolute Return?



# Performance of Total Fund

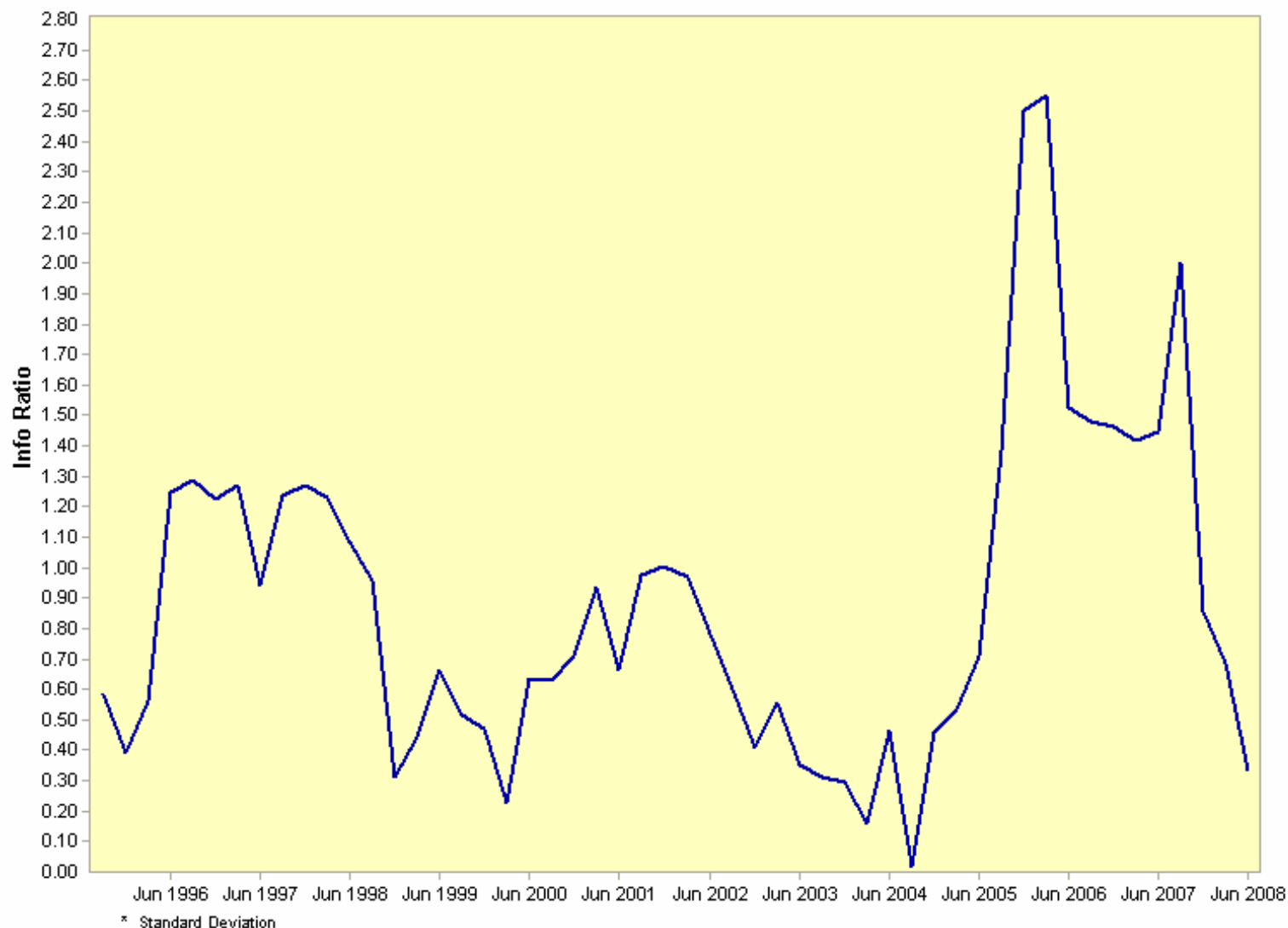
# Total Fund – Rolling Excess Return

12-Quarter Excess Rolling Return  
June 30, 1995 to June 30, 2008  
Benchmark: CalPERS - PERCOMP BM



# Total Fund – Rolling Information Ratio

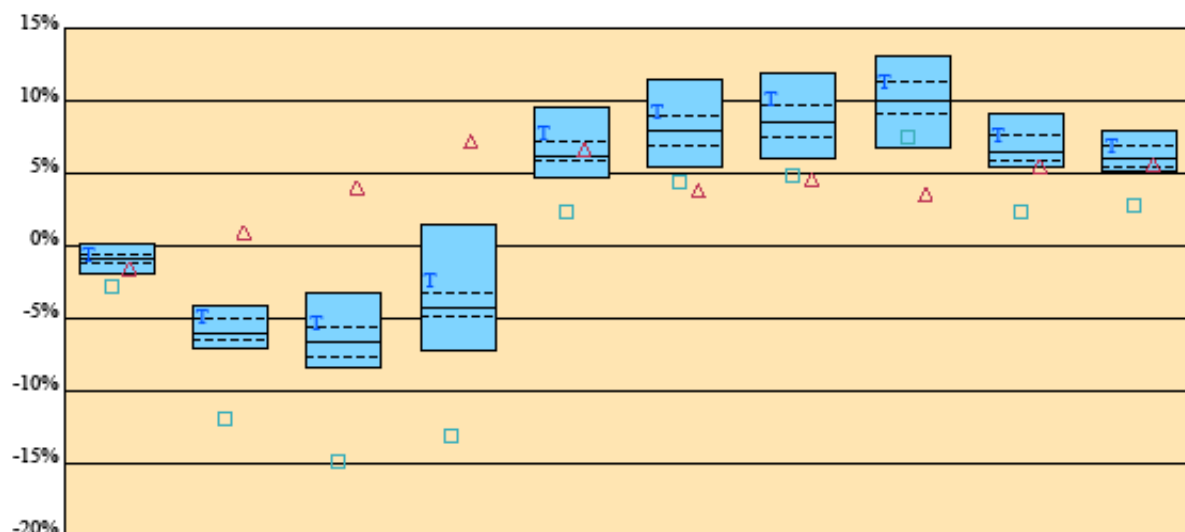
12-Quarter Excess Rolling Information Ratio  
June 30, 1995 to June 30, 2008  
Benchmark: CalPERS - PERCOMP BM



— PERCOMP

# Total Fund – Universe Comparison

California Public Employees Retirement  
Total Returns of Public Funds > \$10 Billion  
Rates of Return for Periods Ending June 30, 2008



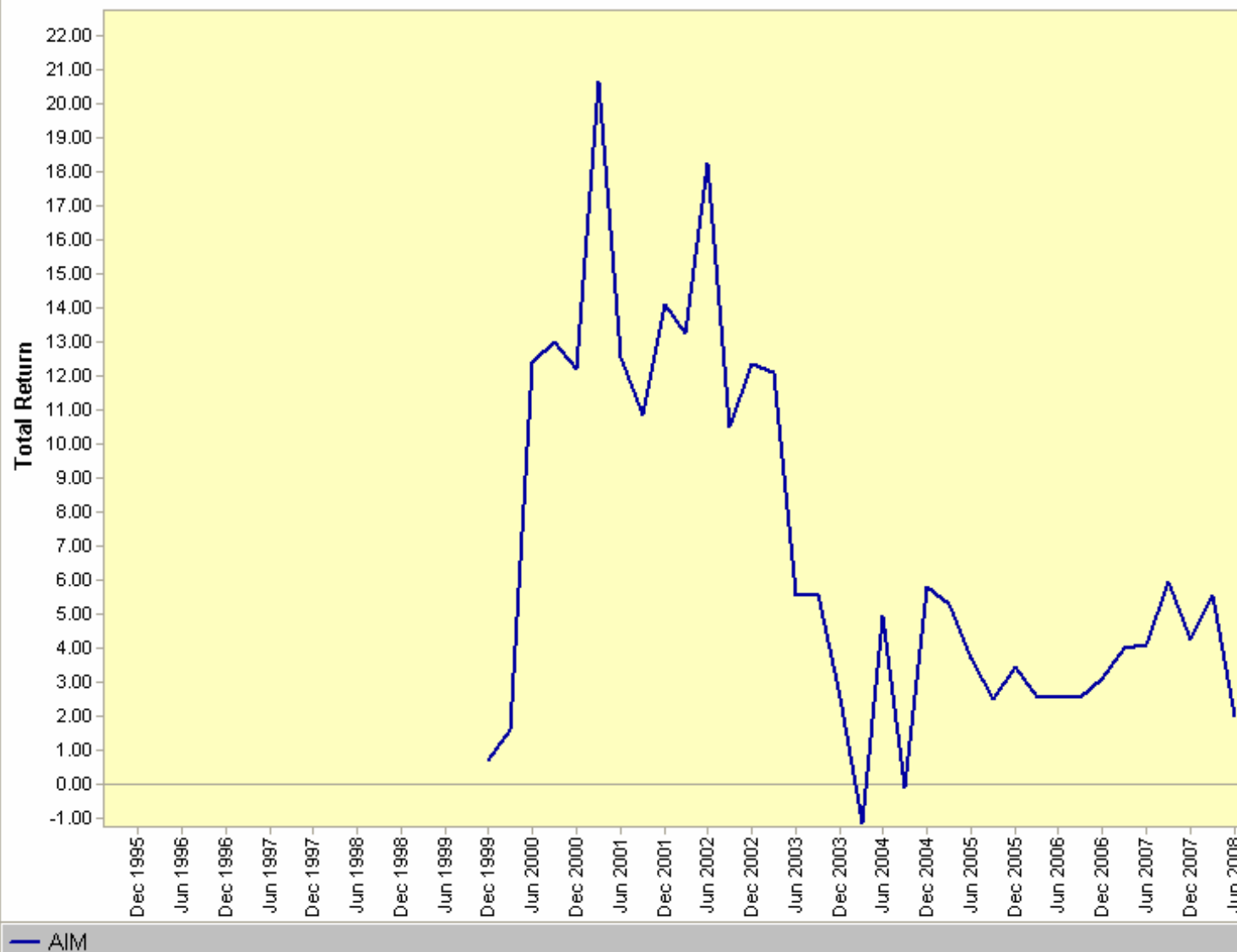
	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	0.18	-4.07	-3.20	1.47	9.58	11.52	11.91	13.12	9.07	7.95
25th Percentile	-0.67	-5.08	-5.66	-3.26	7.26	9.01	9.69	11.28	7.65	6.87
Median	-0.86	-6.02	-6.57	-4.34	6.24	7.91	8.46	10.06	6.46	6.08
75th Percentile	-1.16	-6.55	-7.64	-4.89	5.92	6.84	7.45	9.08	5.86	5.47
95th Percentile	-1.90	-7.14	-8.47	-7.16	4.64	5.41	6.00	6.73	5.43	5.13
T Total Plan - Composites	-0.67 (25)	-4.94(19)	-5.32(16)	-2.41(16)	7.82 (18)	9.28 (21)	10.10 (18)	11.40 (18)	7.66 (21)	6.87 (32)
□ S&P 500	-2.72 (99)	-11.92 (100)	-14.85 (100)	-13.10 (100)	2.38 (100)	4.42 (95)	4.89 (100)	7.59 (92)	2.45 (100)	2.89 (100)
△ Lehman Govt/Credit	-1.52 (88)	0.98 (1)	4.11 (1)	7.24 (1)	6.63 (37)	3.84 (95)	4.68 (100)	3.58 (100)	5.56 (92)	5.68 (67)

Returns for periods greater than one year are annualized.

# Performance by Asset Class

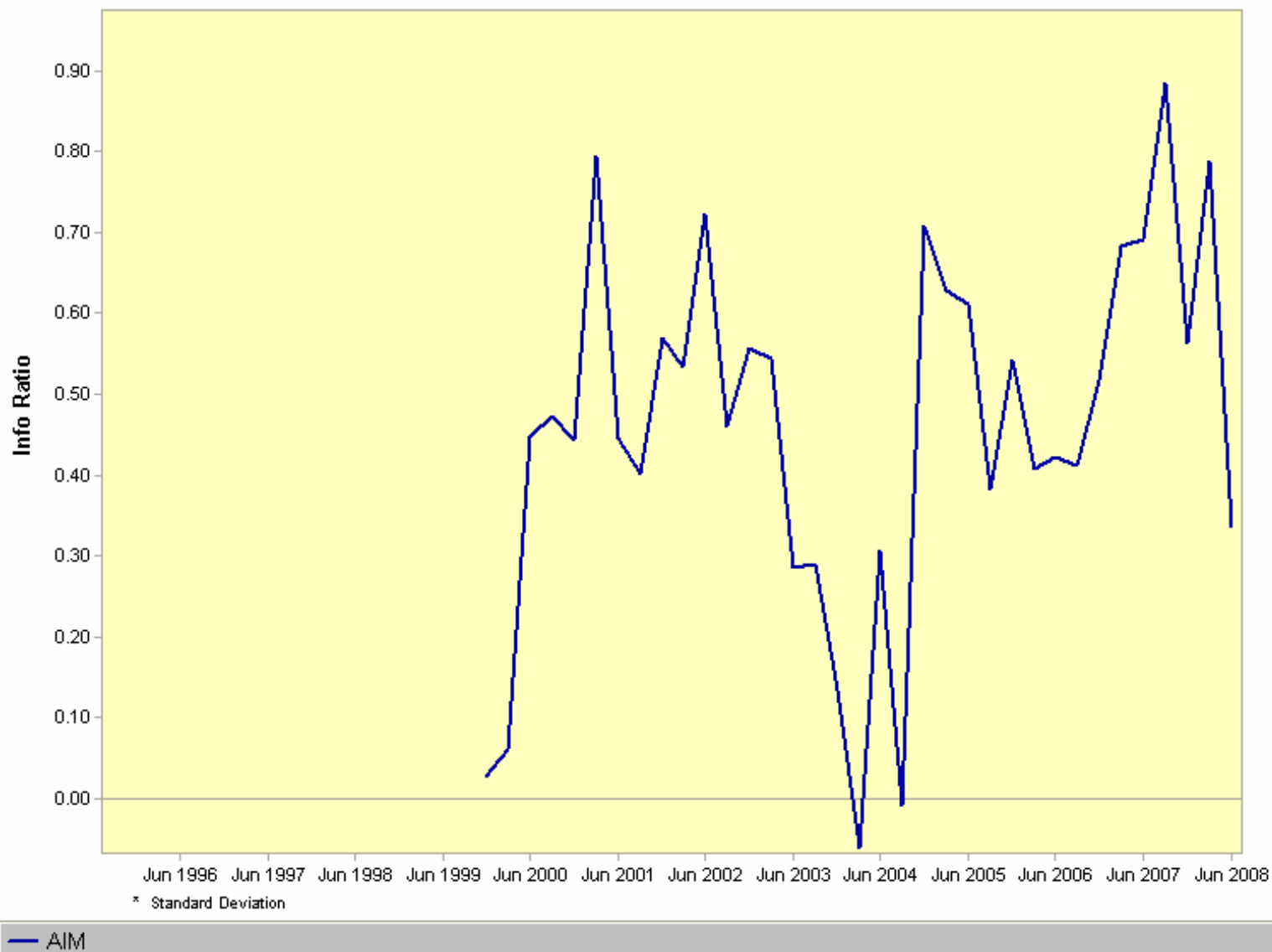
# AIM – Rolling Excess Return

12-Quarter Excess Rolling Return  
June 30, 1995 to June 30, 2008  
Benchmark: CalPERS - AIM BM



# AIM – Rolling Information Ratio

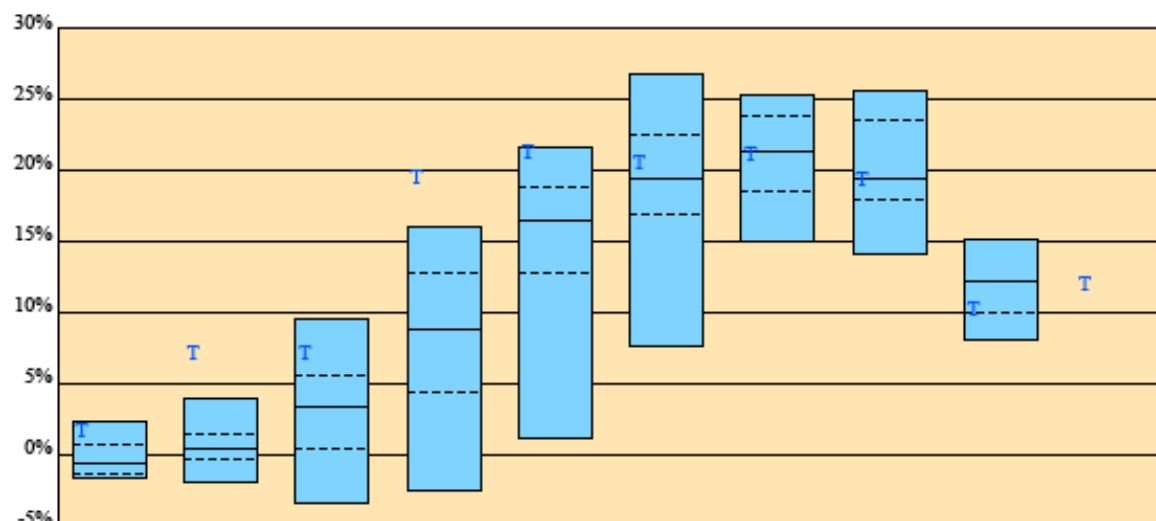
12-Quarter Excess Rolling Information Ratio  
June 30, 1995 to June 30, 2008  
Benchmark: CalPERS - AIM BM





# AIM – Universe Comparison

California Public Employees Retirement  
Private Equity Returns of Public Funds > \$10 Billion  
Rates of Return for Periods Ending June 30, 2008

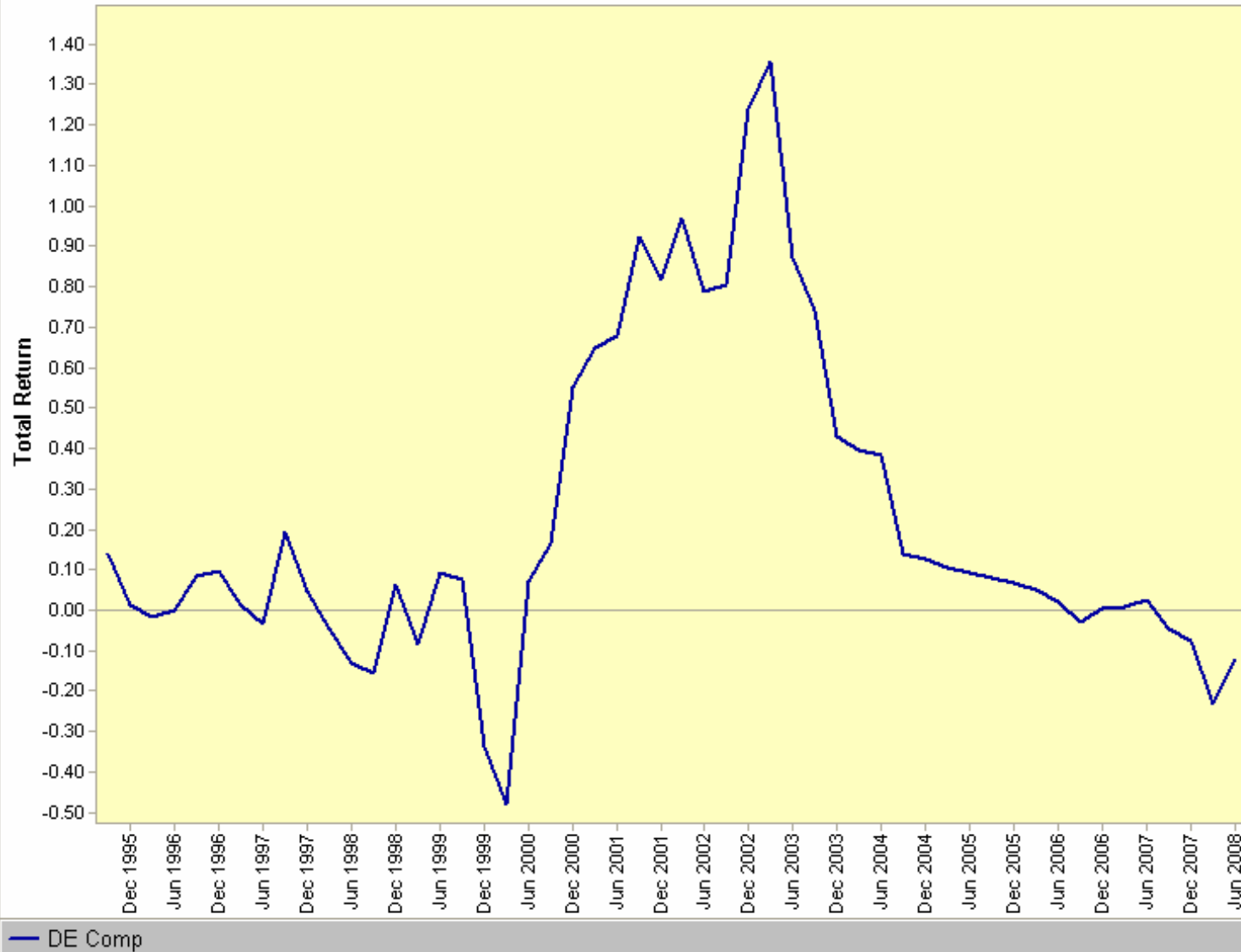


	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	2.27	3.92	9.58	16.08	21.57	26.71	25.36	25.66	15.17	
25th Percentile	0.64	1.42	5.60	12.85	18.86	22.57	23.85	23.53	15.17	
Median	-0.56	0.39	3.33	8.86	16.39	19.35	21.33	19.34	12.26	
75th Percentile	-1.41	-0.30	0.45	4.44	12.84	16.91	18.58	18.00	9.93	
95th Percentile	-1.67	-2.00	-3.39	-2.49	1.13	7.64	15.03	14.10	8.07	
T Total Plan - Composites	1.79 (9)	7.16 (1)	7.23 (5)	19.56 (1)	21.39 (5)	20.64 (35)	21.25 (50)	19.42 (41)	10.34 (62)	12.11

Returns for periods greater than one year are annualized.

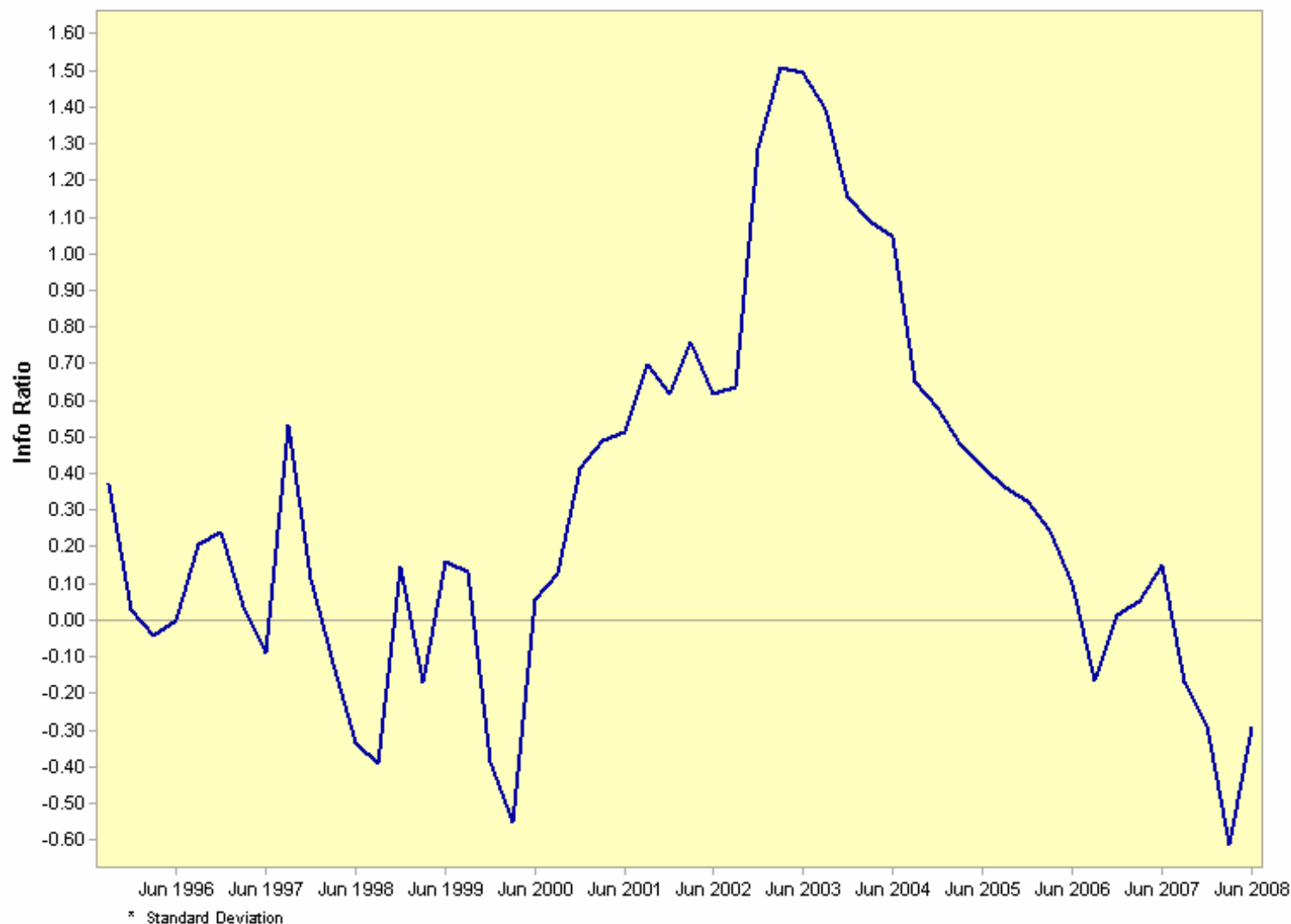
# Domestic Equity – Rolling Excess Return

12-Quarter Excess Rolling Return  
 June 30, 1995 to June 30, 2008  
 Benchmark: CalPERS - DE Comp BM



# Domestic Equities – Rolling Information Ratio

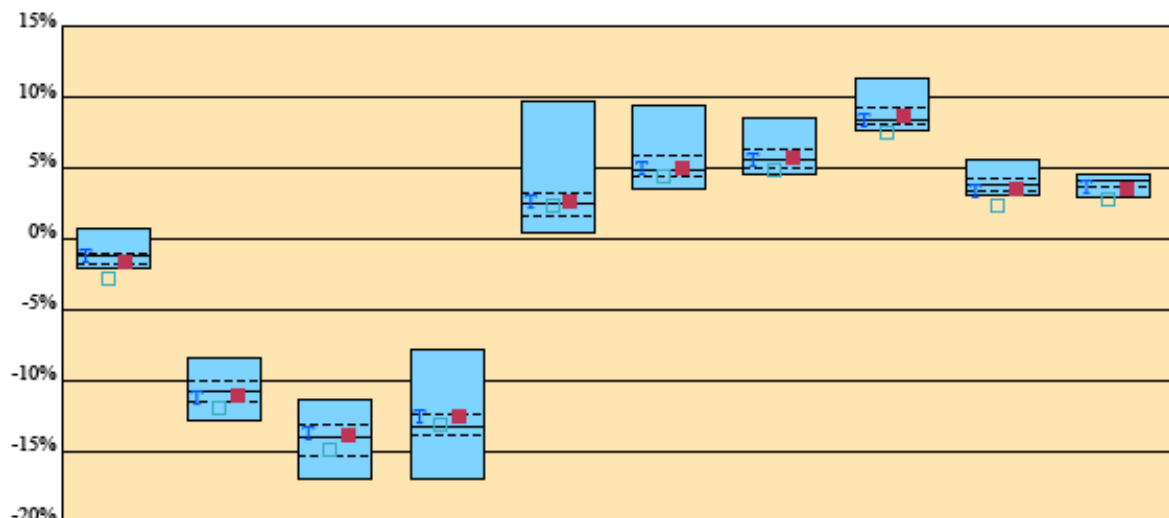
12-Quarter Excess Rolling Information Ratio  
June 30, 1995 to June 30, 2008  
Benchmark: CalPERS - DE Comp BM



— DE Comp

# Domestic Equities – Universe Comparison

California Public Employees Retirement  
US Equity Returns of Public Funds > \$10 Billion  
Rates of Return for Periods Ending June 30, 2008

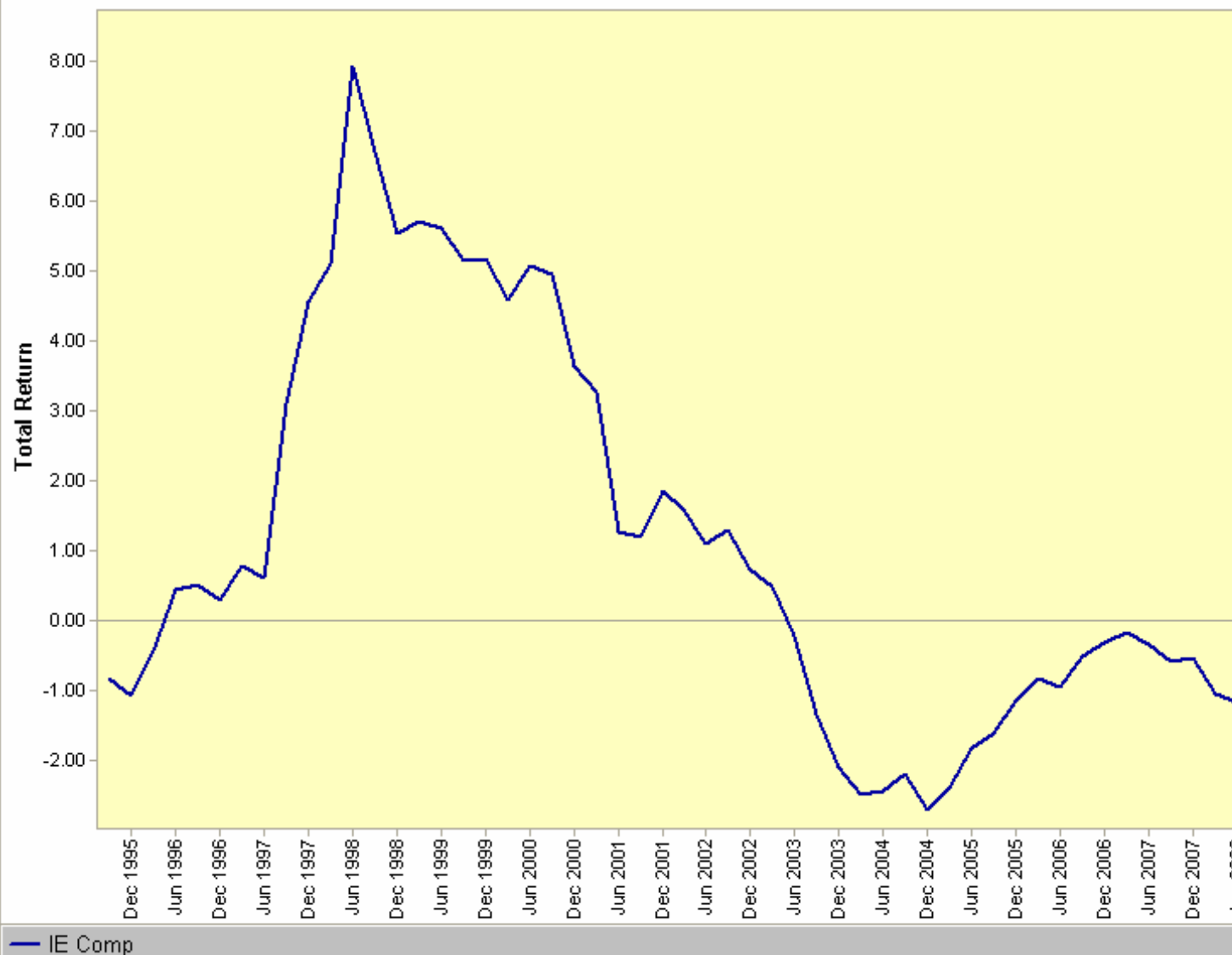


	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	0.66	-8.38	-11.31	-7.78	9.64	9.41	8.57	11.37	5.52	4.62
25th Percentile	-1.01	-10.10	-13.14	-12.38	3.20	5.85	6.36	9.24	4.19	4.49
Median	-1.25	-10.70	-13.97	-13.21	2.43	4.82	5.56	8.43	3.83	4.05
75th Percentile	-1.77	-11.52	-15.28	-13.87	1.60	4.41	5.05	8.09	3.43	3.70
95th Percentile	-2.10	-12.85	-16.93	-16.90	0.50	3.57	4.58	7.58	3.02	2.95
T Total Plan - Composites	-1.18 (39)	-11.16 (58)	-13.71 (37)	-12.55 (29)	2.68 (35)	4.94 (45)	5.54 (56)	8.43 (50)	3.42 (75)	3.60 (75)
□ S&P 500	-2.72 (100)	-11.92 (87)	-14.85 (66)	-13.10 (45)	2.38 (50)	4.42 (70)	4.89 (83)	7.59 (91)	2.45 (99)	2.89 (99)
■ DJ Wilshire 5000	-1.55 (64)	-10.92 (50)	-13.79 (41)	-12.53 (29)	2.65 (35)	5.02 (35)	5.81 (37)	8.73 (31)	3.63 (58)	3.59 (75)

Returns for periods greater than one year are annualized.

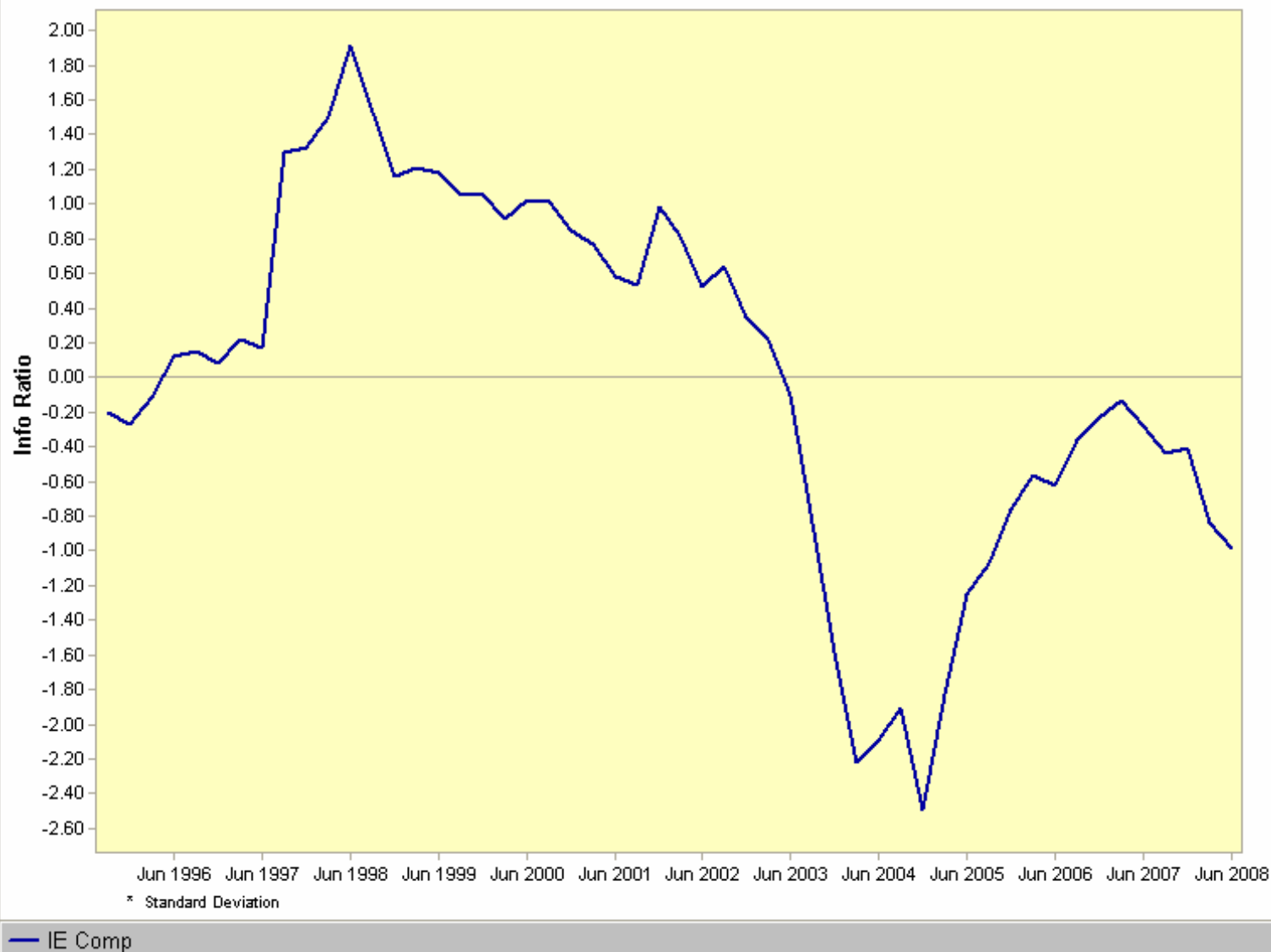
# International Equities – Rolling Excess Return

12-Quarter Excess Rolling Return  
June 30, 1995 to June 30, 2008  
Benchmark: CalPERS - IE EQ BM



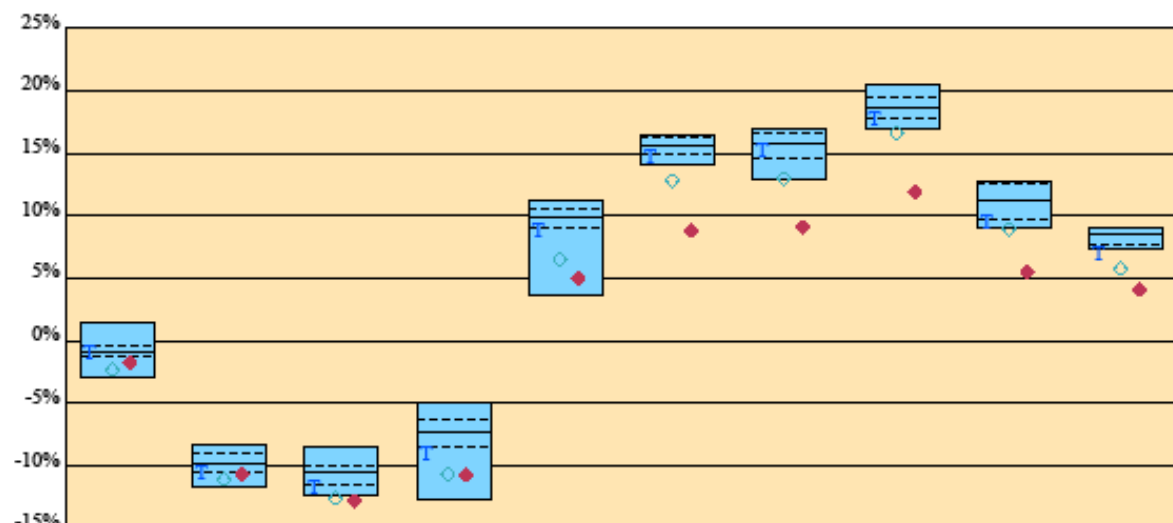
# International Equities – Rolling Information Ratio

12-Quarter Excess Rolling Information Ratio  
June 30, 1995 to June 30, 2008  
Benchmark: CalPERS - IE EQ BM



# International Equities – Universe Comparison

California Public Employees Retirement  
International Equity Returns of Public Funds > \$10 Billion  
Rates of Return for Periods Ending June 30, 2008

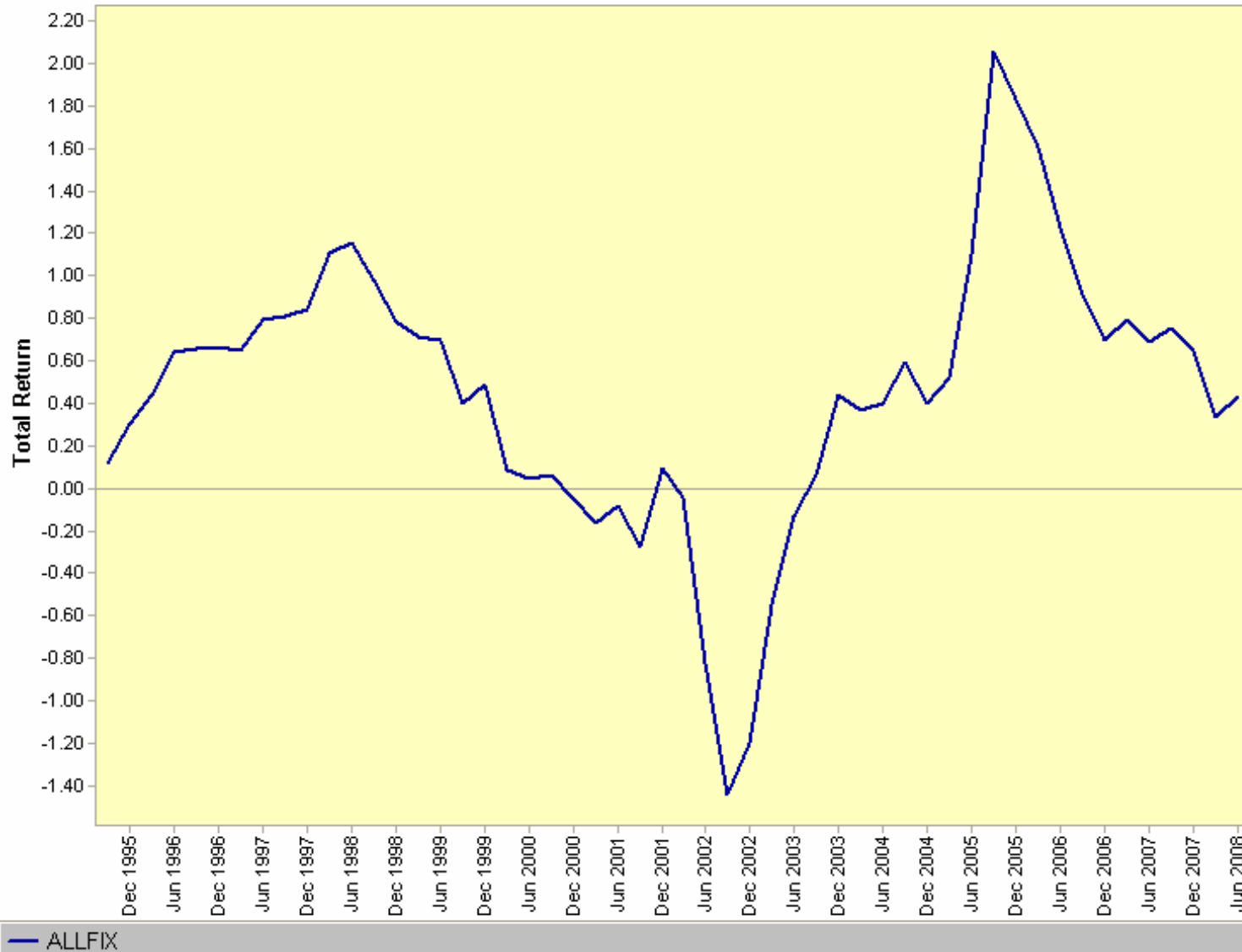


	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	1.40	-8.37	-8.46	-4.88	11.27	16.50	16.93	20.41	12.77	9.07
25th Percentile	-0.47	-9.06	-10.02	-6.26	10.57	16.27	16.59	19.54	12.55	9.07
Median	-0.93	-9.83	-10.57	-7.36	9.94	15.60	15.82	18.69	11.16	8.44
75th Percentile	-1.31	-10.52	-11.51	-8.50	9.07	14.87	14.54	17.71	9.73	7.65
95th Percentile	-2.99	-11.68	-12.40	-12.62	3.59	14.12	12.84	16.95	9.00	7.26
T Total Plan - Composites	-0.99 (53)	-10.55 (75)	-11.65 (79)	-8.91 (79)	8.89 (79)	14.67 (81)	15.17 (56)	17.82 (66)	9.49 (75)	6.93 (100)
◇ MSCI EAFE (Net)	-2.25 (92)	-10.96 (83)	-12.52 (95)	-10.61 (84)	6.55 (89)	12.84 (100)	13.04 (91)	16.67 (99)	9.01 (87)	5.83 (100)
◆ MSCI World (Net)	-1.66 (88)	-10.57 (75)	-12.73 (95)	-10.67 (84)	5.07 (94)	8.88 (100)	9.17 (100)	11.99 (100)	5.54 (100)	4.19 (100)

Returns for periods greater than one year are annualized.

# Total Fixed Income – Excess Rolling Return

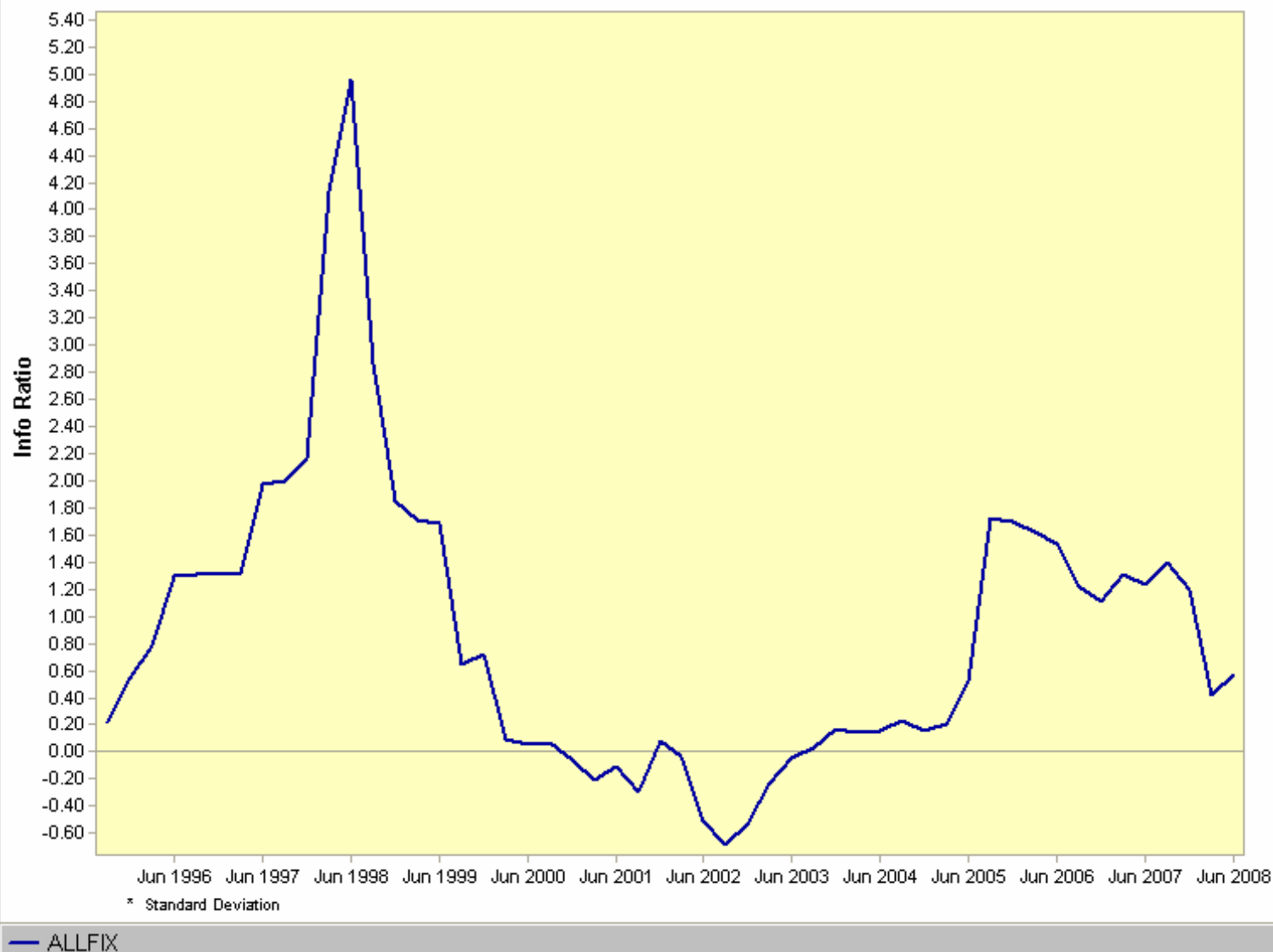
12-Quarter Excess Rolling Return  
 June 30, 1995 to June 30, 2008  
 Benchmark: CalPERS - ALL FIX BM





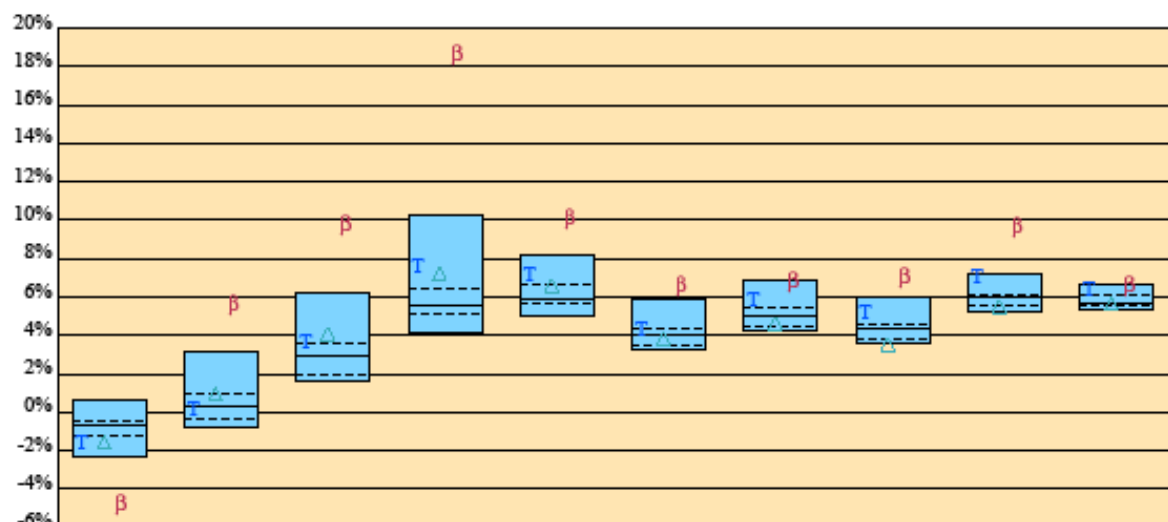
# Total Fixed Income – Rolling Information Ratio

12-Quarter Excess Rolling Information Ratio  
June 30, 1995 to June 30, 2008  
Benchmark: CalPERS - ALL FIX BM



# Total Fixed Income – Universe Comparison

California Public Employees Retirement  
Fixed Income Returns of Public Funds > \$10 Billion  
Rates of Return for Periods Ending June 30, 2008

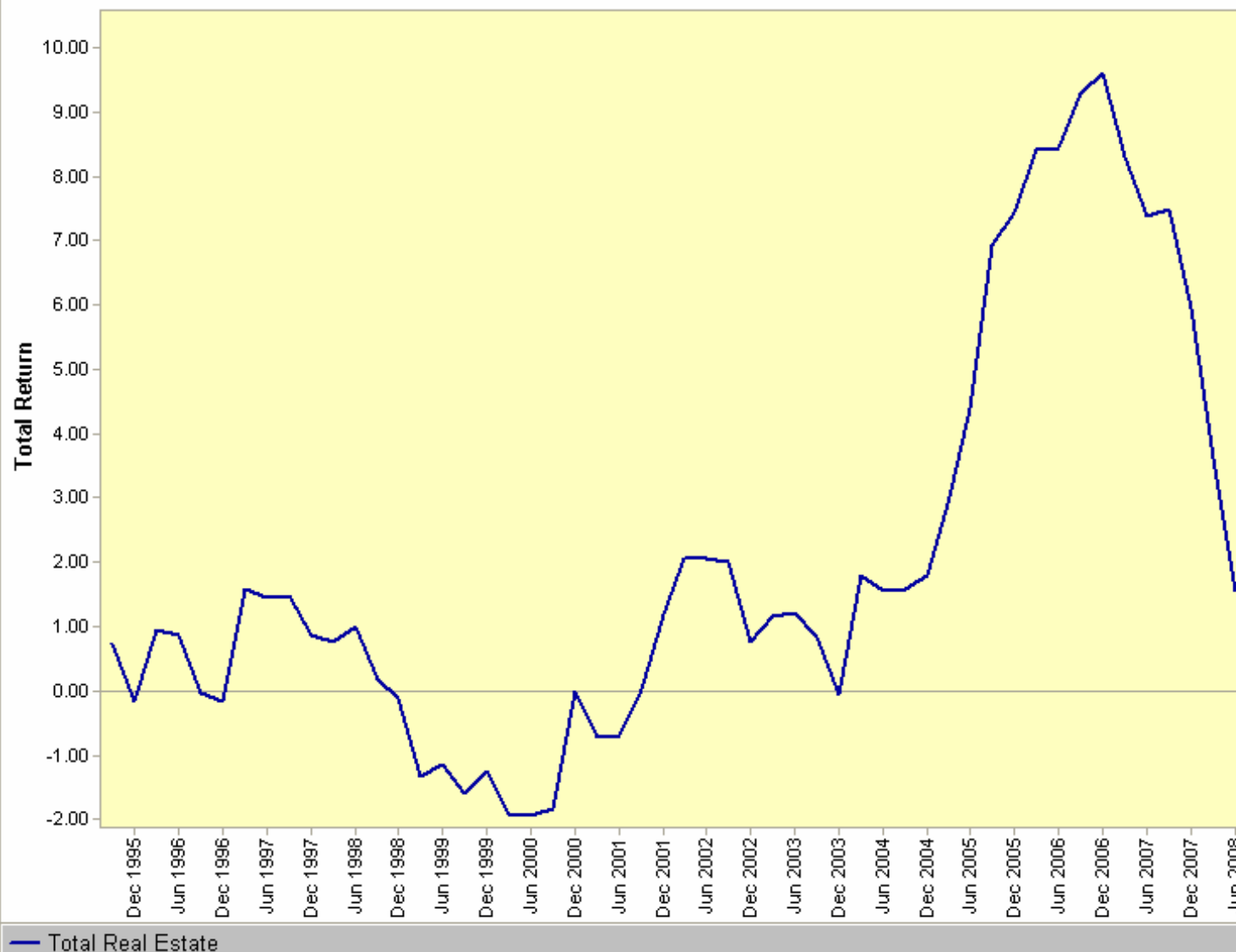


	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	0.61	3.15	6.18	10.22	8.21	5.92	6.85	6.03	7.24	6.68
25th Percentile	-0.41	0.96	3.64	6.41	6.67	4.34	5.45	4.54	6.11	6.07
Median	-0.65	0.29	2.99	5.61	5.90	3.98	4.99	4.41	5.97	5.73
75th Percentile	-1.21	-0.39	1.96	5.12	5.63	3.53	4.43	3.84	5.60	5.54
95th Percentile	-2.30	-0.74	1.63	4.11	5.04	3.31	4.23	3.65	5.24	5.31
<b>T</b> Total Plan - Composites	-1.54 (87)	0.23 (50)	3.74 (21)	7.70 (17)	7.18 (13)	4.36 (15)	5.94 (12)	5.23 (5)	7.13 (5)	6.42 (5)
<b>△</b> Lehman Govt/Credit	-1.52 (87)	0.98 (21)	4.11 (17)	7.24 (17)	6.63 (25)	3.84 (65)	4.68 (70)	3.58 (99)	5.56 (75)	5.68 (56)
<b>β</b> Citigroup Non-US Govt Bond	-4.72 (100)	5.70 (1)	9.83 (1)	18.72 (1)	10.15 (1)	6.65 (1)	6.92 (1)	7.06 (1)	9.76 (1)	6.67 (5)

Returns for periods greater than one year are annualized.

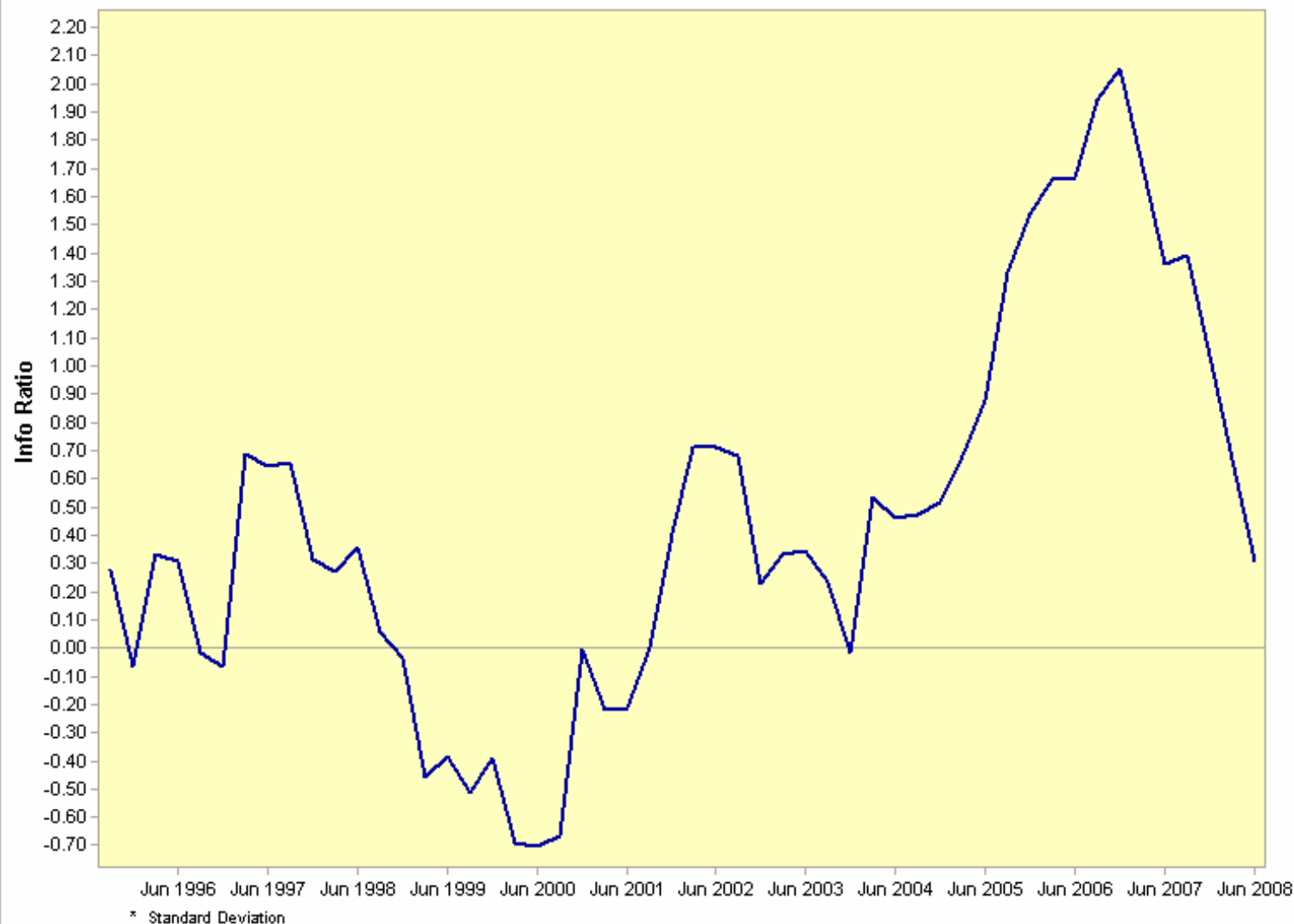
# Real Estate – Rolling Excess Return

12-Quarter Excess Rolling Return  
June 30, 1995 to June 30, 2008  
Benchmark: CalPERS - RE BM



# Real Estate – Rolling Information Ratio

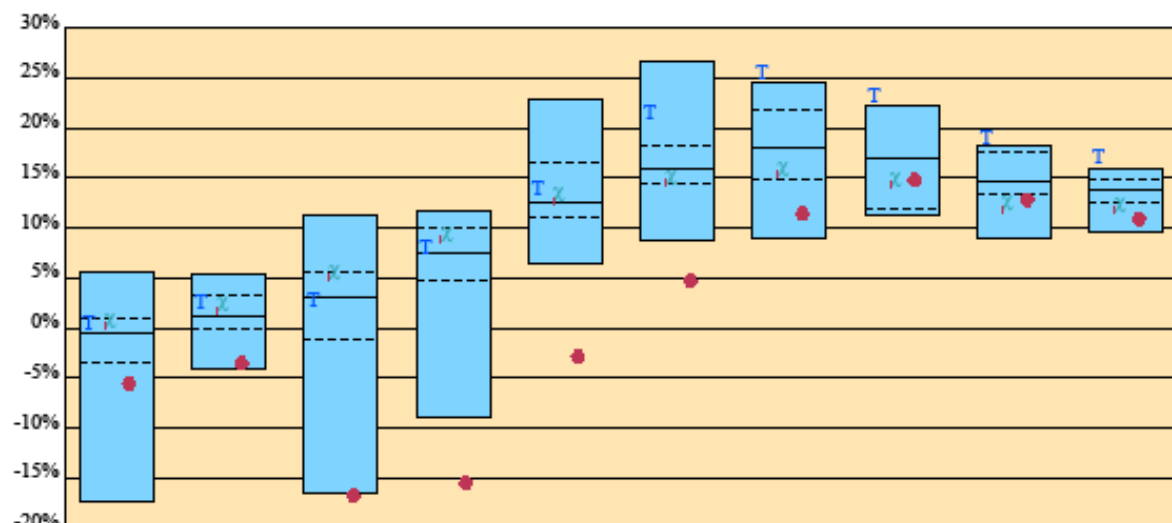
12-Quarter Excess Rolling Information Ratio  
June 30, 1995 to June 30, 2008  
Benchmark: CalPERS - RE BM



— Total Real Estate

# Real Estate – Universe Comparison

California Public Employees Retirement  
Real Estate Returns of Public Funds > \$10 Billion  
Rates of Return for Periods Ending June 30, 2008



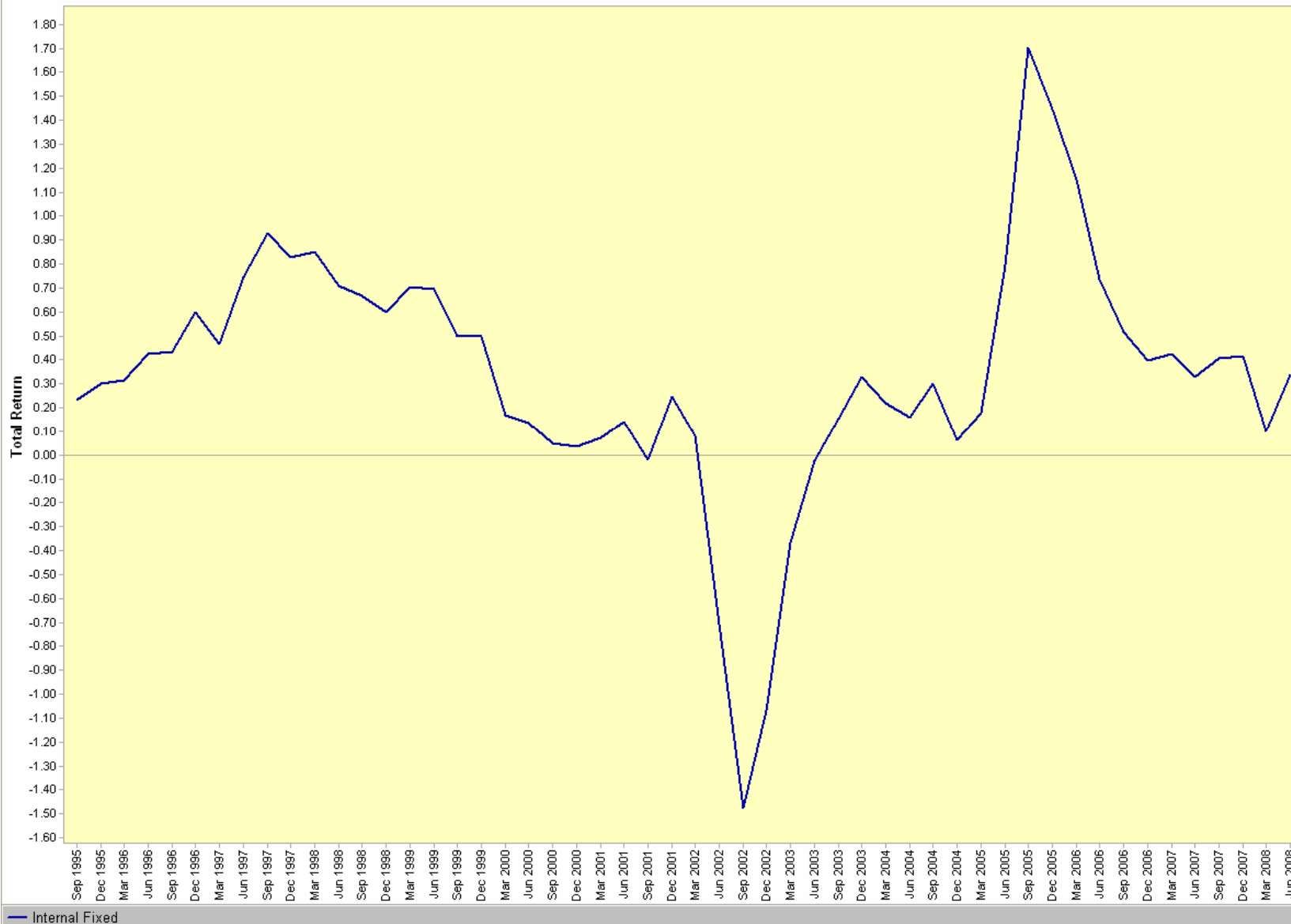
	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	5.52	5.34	11.23	11.76	22.84	26.73	24.60	22.25	18.21	15.84
25th Percentile	0.98	3.21	5.55	10.06	16.51	18.17	21.81	22.17	17.70	14.93
Median	-0.45	1.09	3.17	7.45	12.65	15.96	18.12	17.05	14.60	13.73
75th Percentile	-3.48	-0.04	-1.22	4.85	11.10	14.52	14.83	11.89	13.46	12.59
95th Percentile	-17.23	-4.04	-16.55	-8.93	6.38	8.72	8.91	11.38	9.04	9.63
T Total Plan - Composites	0.54 (29)	2.65 (30)	2.87(55)	8.12(40)	13.98 (40)	21.70 (5)	25.57 (1)	23.32 (1)	19.13 (1)	17.17 (1)
X NCREIF Property Index	0.56 (29)	2.17 (30)	5.45(25)	9.20(30)	13.15 (45)	14.96 (68)	15.72 (66)	14.72 (66)	12.33 (87)	12.23 (75)
● D.J. Wilshire RESI	-5.41 (75)	-3.41 (81)	-16.62 (99)	-15.42 (99)	-2.79 (99)	4.82 (99)	11.52 (87)	14.87 (66)	12.95 (75)	11.01 (95)

Returns for periods greater than one year are annualized.

# **Performance of Selected Portfolios**

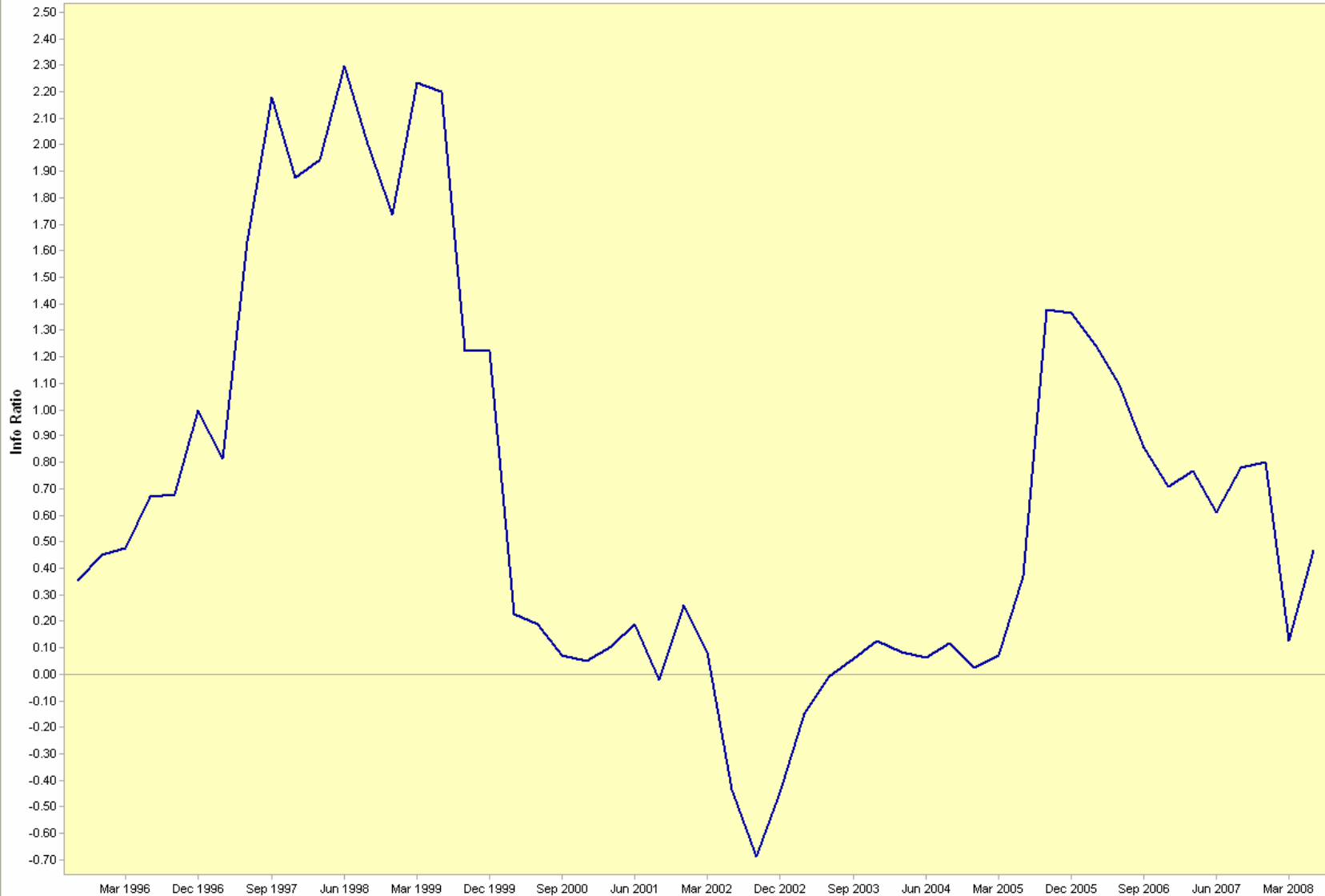
# Internal Fixed Income – Rolling Excess Return

12-Quarter Excess Rolling Return  
June 30, 1995 to June 30, 2008  
Benchmark: CalPERS - Internal Fixed Bench



# Internal Fixed Income – Rolling Information Ratio

12-Quarter Excess Rolling Information Ratio  
June 30, 1995 to June 30, 2008  
Benchmark: CalPERS - Internal Fixed Bench



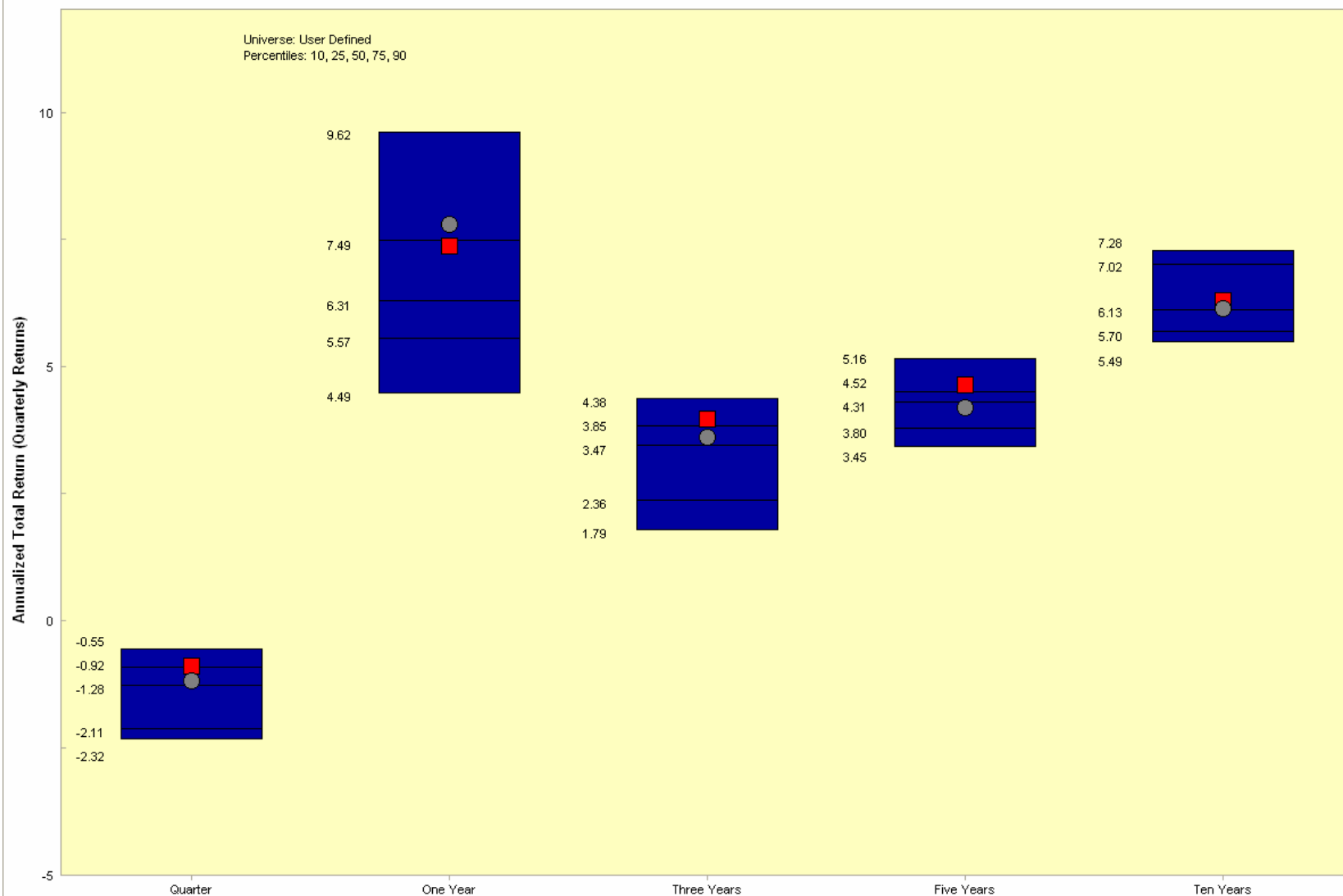
— Internal Fixed

\* Standard Deviation



# Internal Fixed Income vs Long Duration Universe

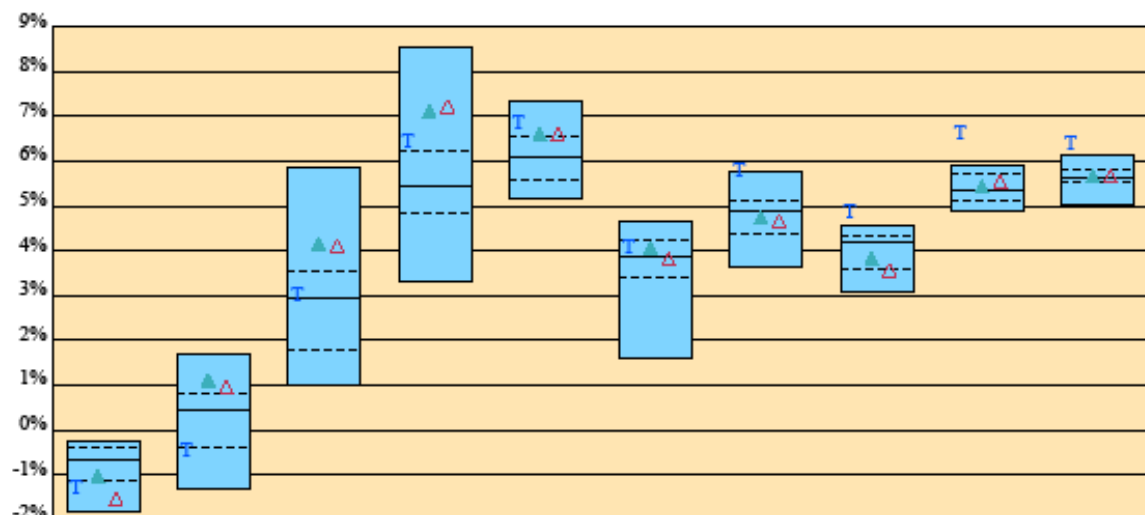
Universe Analysis  
Periods as of June 30, 2008



	Quarter	One Year	Three Years	Five Years	Ten Years
■ Internal Fixed	-0.90 (21)	7.38 (26)	3.98 (22)	4.64 (19)	6.31 (40)
● I. Fixed Benchmark	-1.17 (39)	7.81 (21)	3.63 (31)	4.21 (51)	6.15 (48)
# of Products	20	20	19	17	11

# All US Fixed Income vs Peers

California Public Employees Retirement  
US Fixed Income Returns of Public Funds > \$10 Billion  
Rates of Return for Periods Ending June 30, 2008

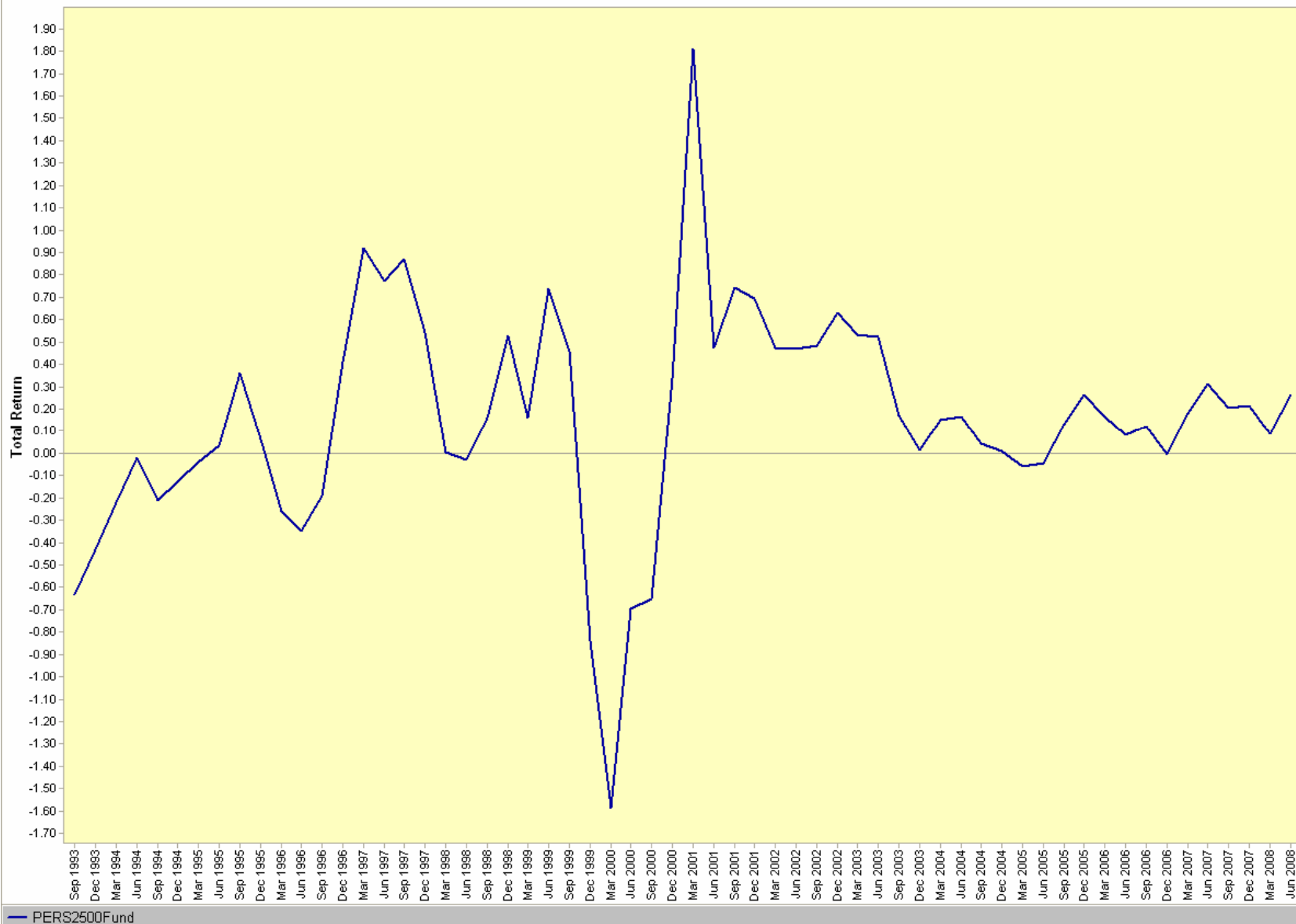


	1 Quarter	2 Quarters	3 Quarters	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th Percentile	-0.27	1.69	5.87	8.52	7.33	4.66	5.77	4.57	5.92	6.14
25th Percentile	-0.41	0.79	3.53	6.25	6.54	4.22	5.11	4.34	5.74	5.81
Median	-0.66	0.45	2.95	5.44	6.07	3.88	4.89	4.17	5.36	5.61
75th Percentile	-1.12	-0.40	1.80	4.84	5.58	3.39	4.38	3.58	5.12	5.55
95th Percentile	-1.82	-1.30	0.98	3.31	5.16	1.61	3.62	3.10	4.88	5.01
T Total Plan - Composites	-1.25 (79)	-0.44 (75)	3.02 (42)	6.47 (17)	6.89 (15)	4.11 (35)	5.80 (1)	4.90 (1)	6.64 (1)	6.42 (1)
▲ Lehman Aggregate	-1.02 (64)	1.13 (17)	4.17 (17)	7.13 (17)	6.62 (20)	4.08 (35)	4.76 (56)	3.85 (56)	5.44 (43)	5.68 (33)
△ Lehman Govt/Credit	-1.52 (87)	0.98 (17)	4.11 (17)	7.24 (17)	6.63 (15)	3.84 (55)	4.68 (62)	3.58 (83)	5.56 (37)	5.68 (33)

Returns for periods greater than one year are annualized.

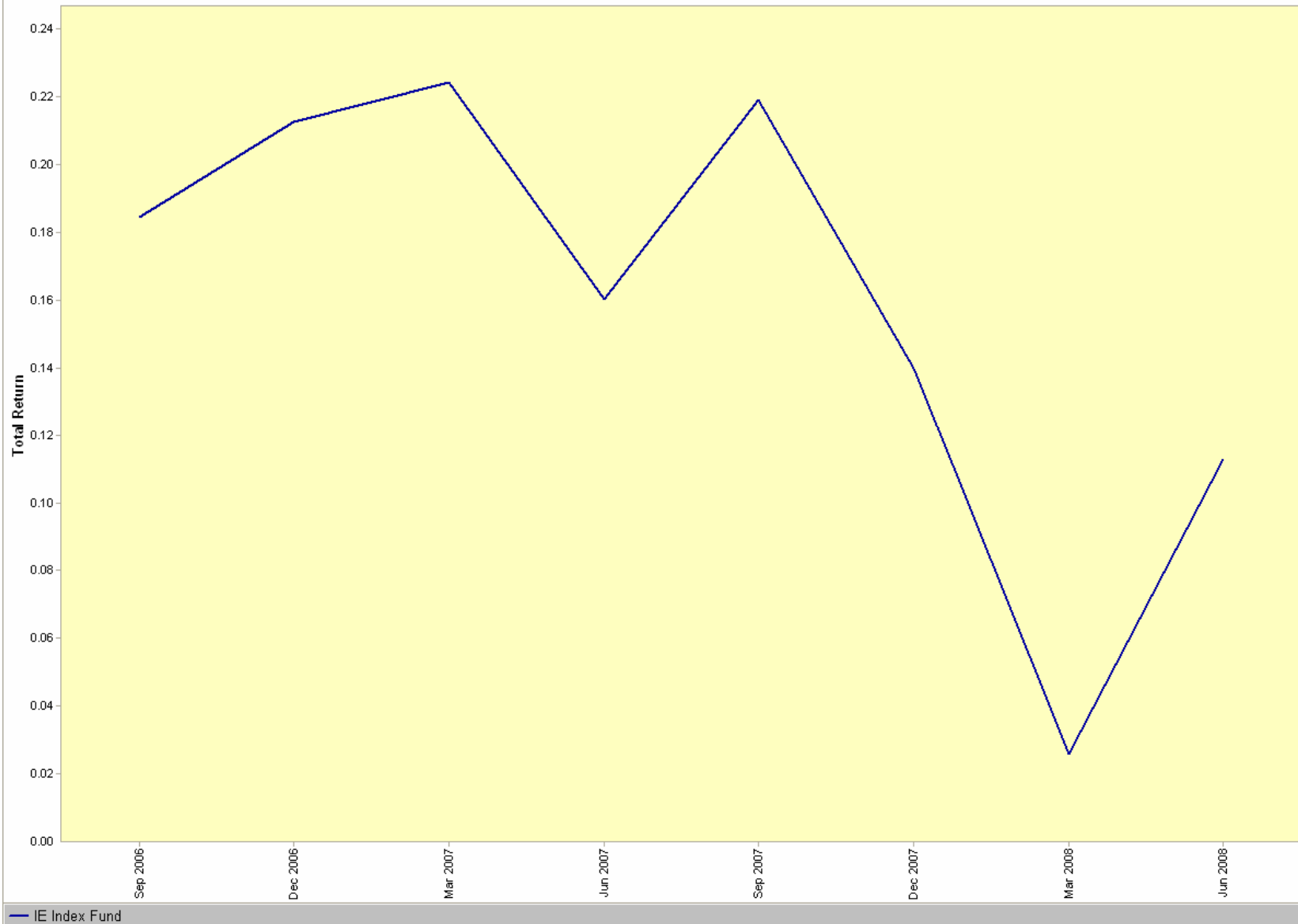
# Internal Domestic Index - Rolling Excess Return

4-Quarter Excess Rolling Return  
June 30, 1993 to June 30, 2008  
Benchmark: CalPERS - PERS2500Index



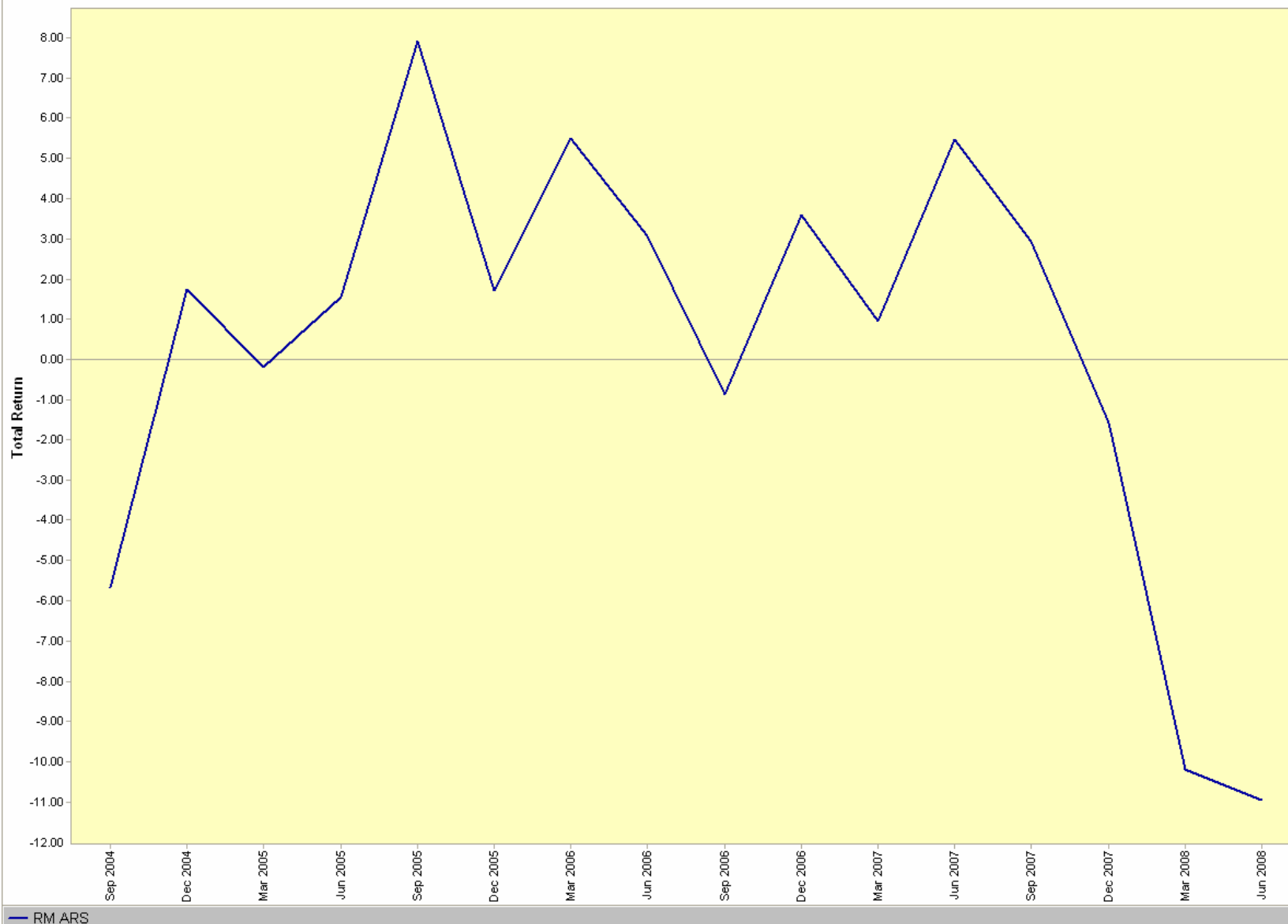
# Internal International Index Fund – Rolling Excess

4-Quarter Excess Rolling Return  
June 30, 2006 to June 30, 2008  
Benchmark: CalPERS - IE Index Benchmark



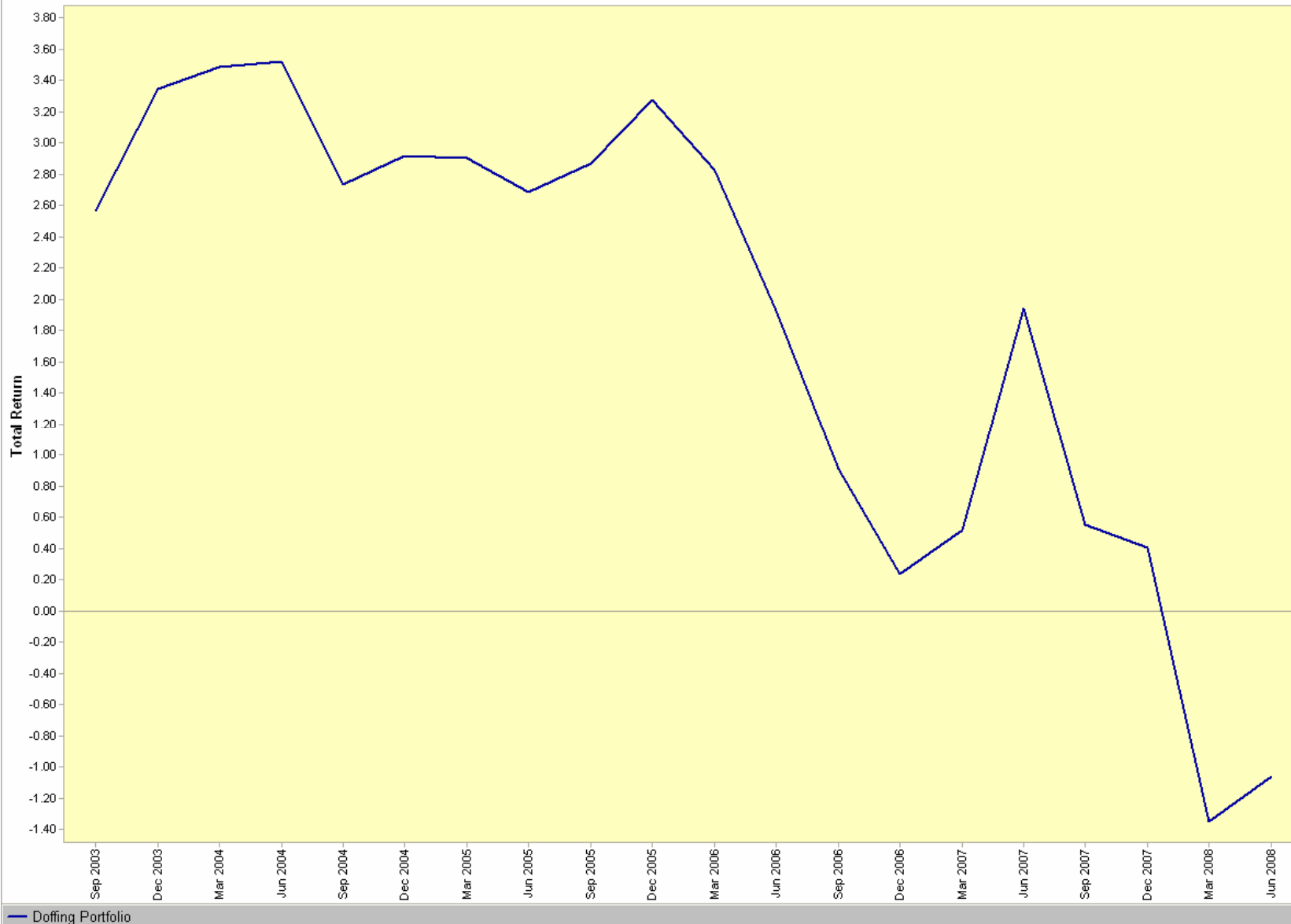
# RMARS – (1 Year) Rolling Excess Return

4-Quarter Excess Rolling Return  
June 30, 2004 to June 30, 2008  
Benchmark: CalPERS - RM ARS Benchmark



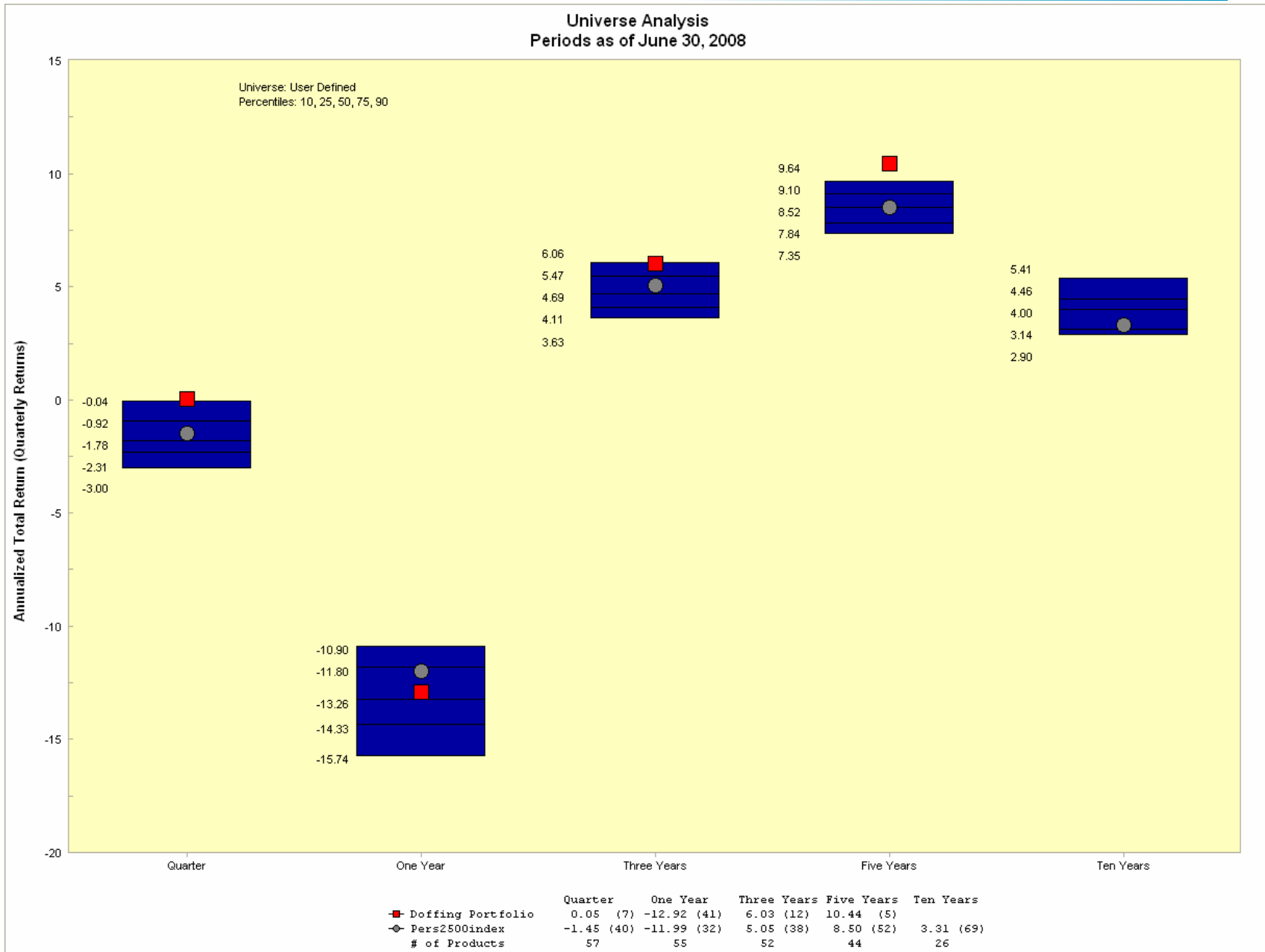
# Internal Enhanced Equity – Rolling Excess Return

4-Quarter Excess Rolling Return  
June 30, 2003 to June 30, 2008  
Benchmark: CalPERS - PERS2500Index



— Doffing Portfolio

# Internal Enhanced Equity vs Enhanced Universe





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